

Observations on Alaska's Economy and Economic Implications of Alaska's Fiscal Choices

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Outline

- Overview of Alaska's economy
- Short-run economic impacts of Alaska fiscal options
- Economic implications of how fast we reduce the deficit

I am not advocating for or opposing any bills or proposals

Overview of Alaska's Economy

Thanks to the Alaska Department of Labor and Workforce Development economists who do an excellent job tracking Alaska's economy.

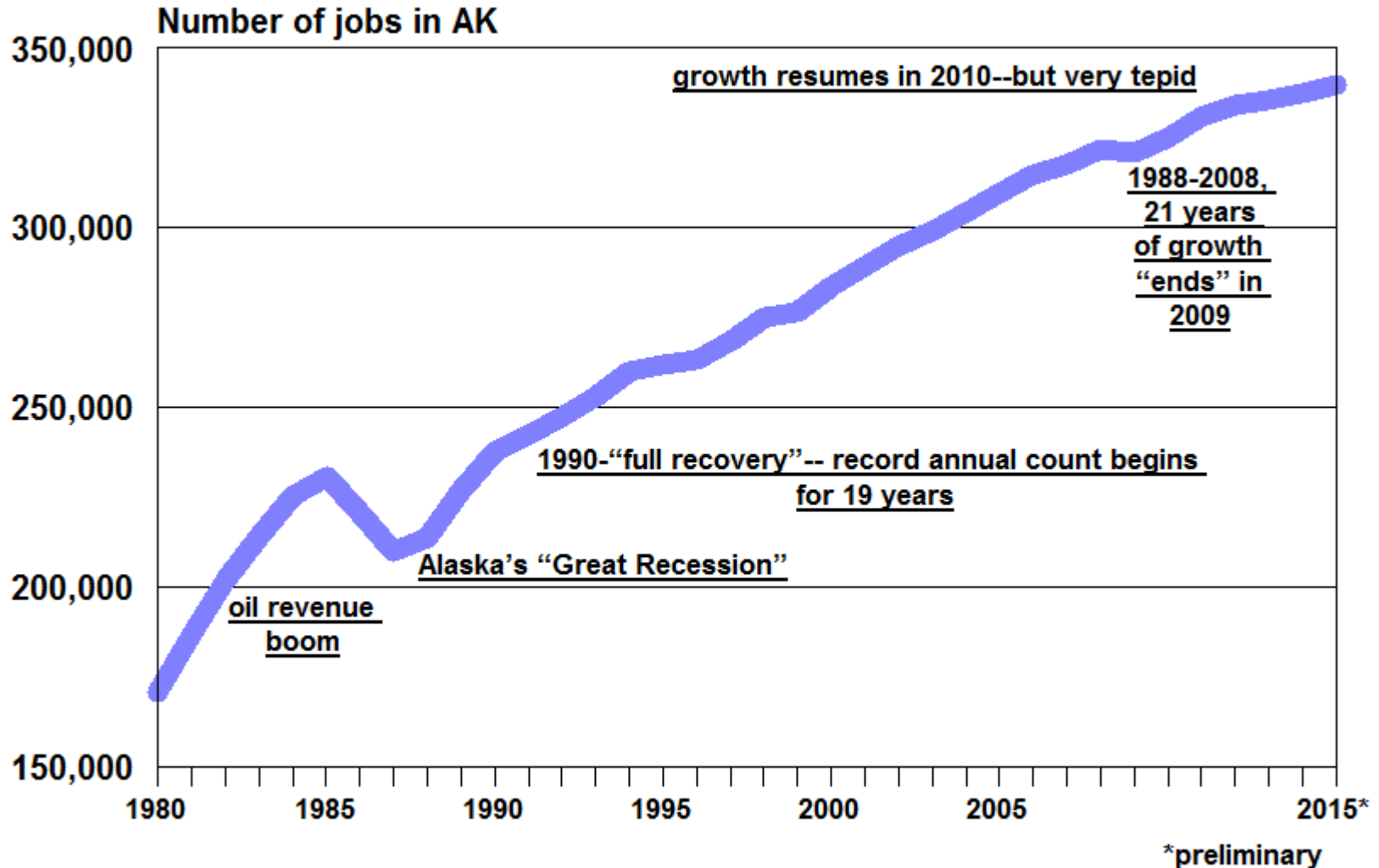


They provided me with most of the data and charts about the economy that I'm using in this presentation.

Summary of main points about Alaska's economy

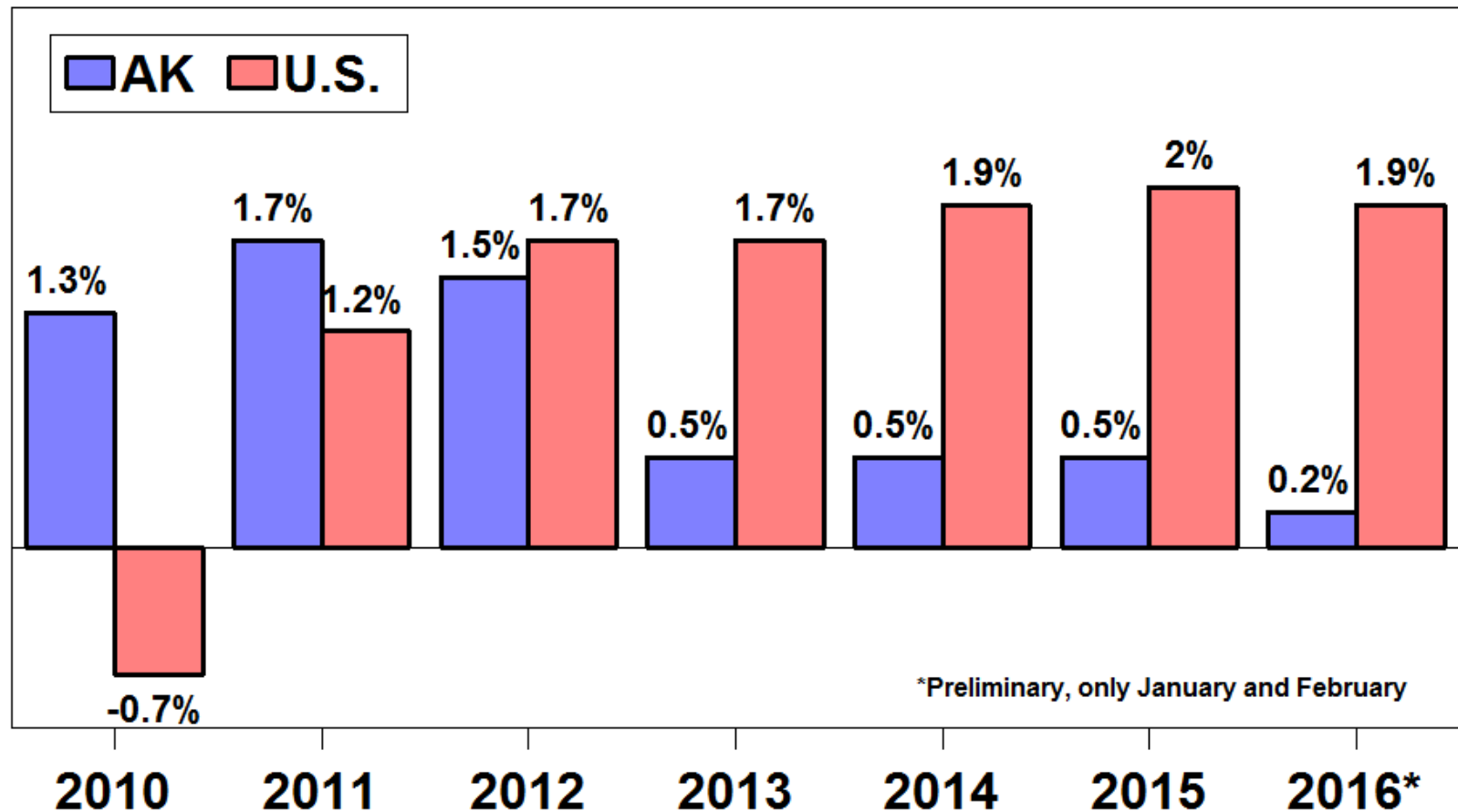
- There is significant concern about:
 - Are we facing a recession?
 - Could what we do to reduce the deficit aggravate the recession?
 - Could we be facing a repeat of the 1980s recession?
- Despite these concerns:
 - The best available evidence is that Alaska's overall economy is not yet in a recession
 - There are important positive indicators in the economy
- Several sectors of Alaska's economy are declining:
 - Oil industry
 - Construction
 - State government
- We probably are facing a recession
- But it is unlikely that it will be as severe or damaging as the 1980s recession

Alaska has had twenty-five years of almost continuous but slowing economic growth.



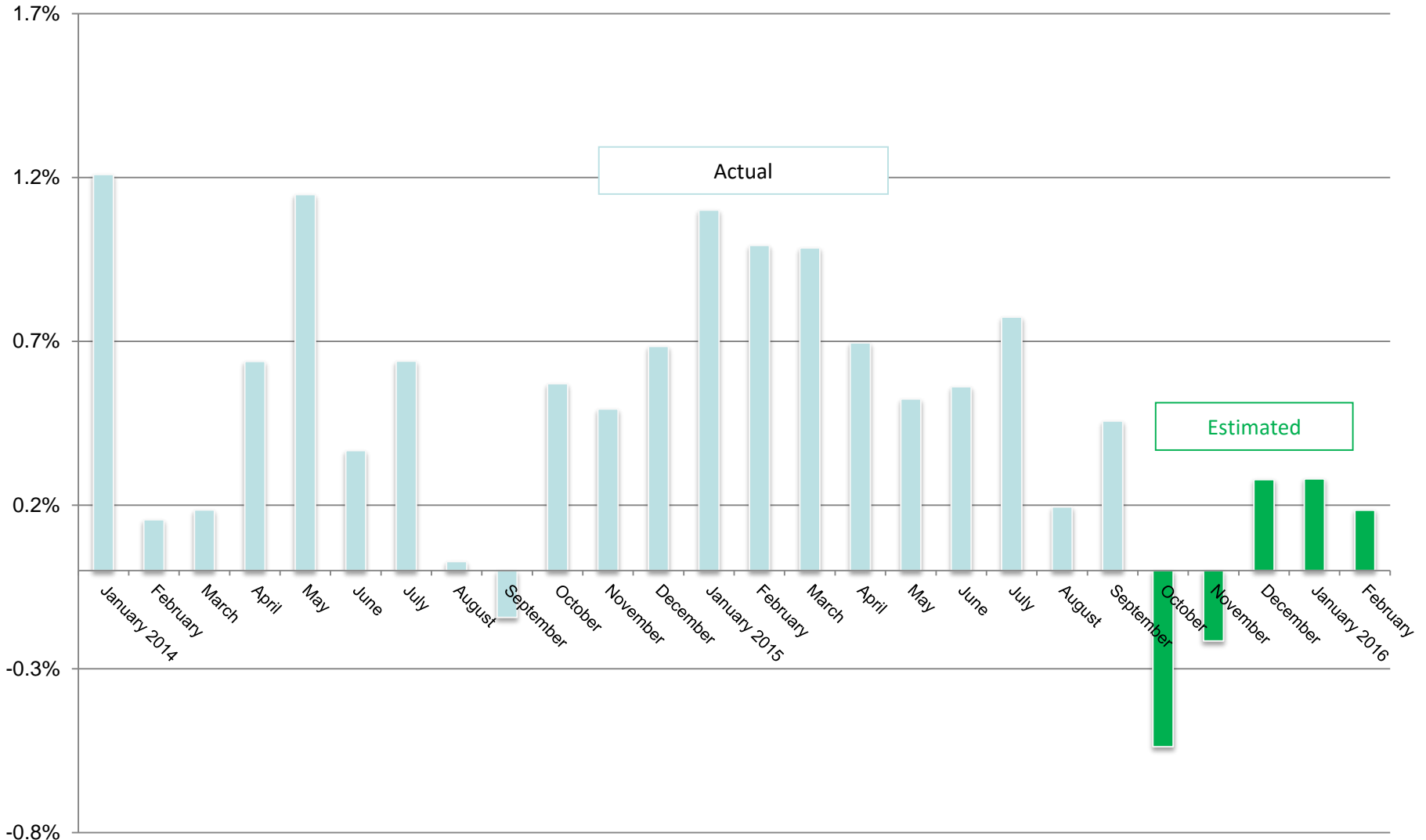
The best available evidence is that the total Alaska economy—as measured by the number of jobs—is still growing, but at a very slow rate.

Percent employment change from previous year-AK and U.S.

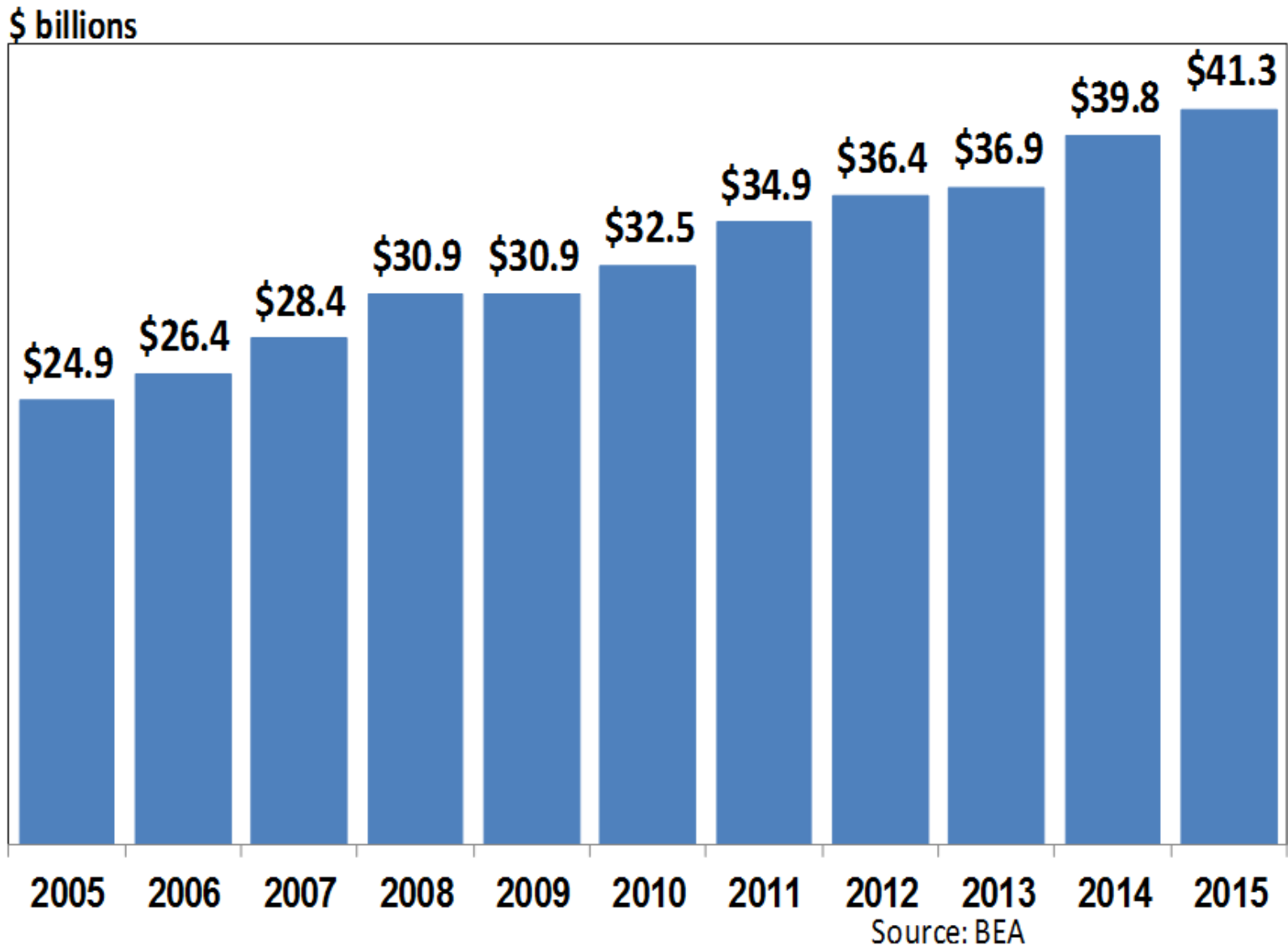


The most recent job estimates show total employment higher than a year ago.

Total Wage and Salary Jobs, Over-the-year Percent Change

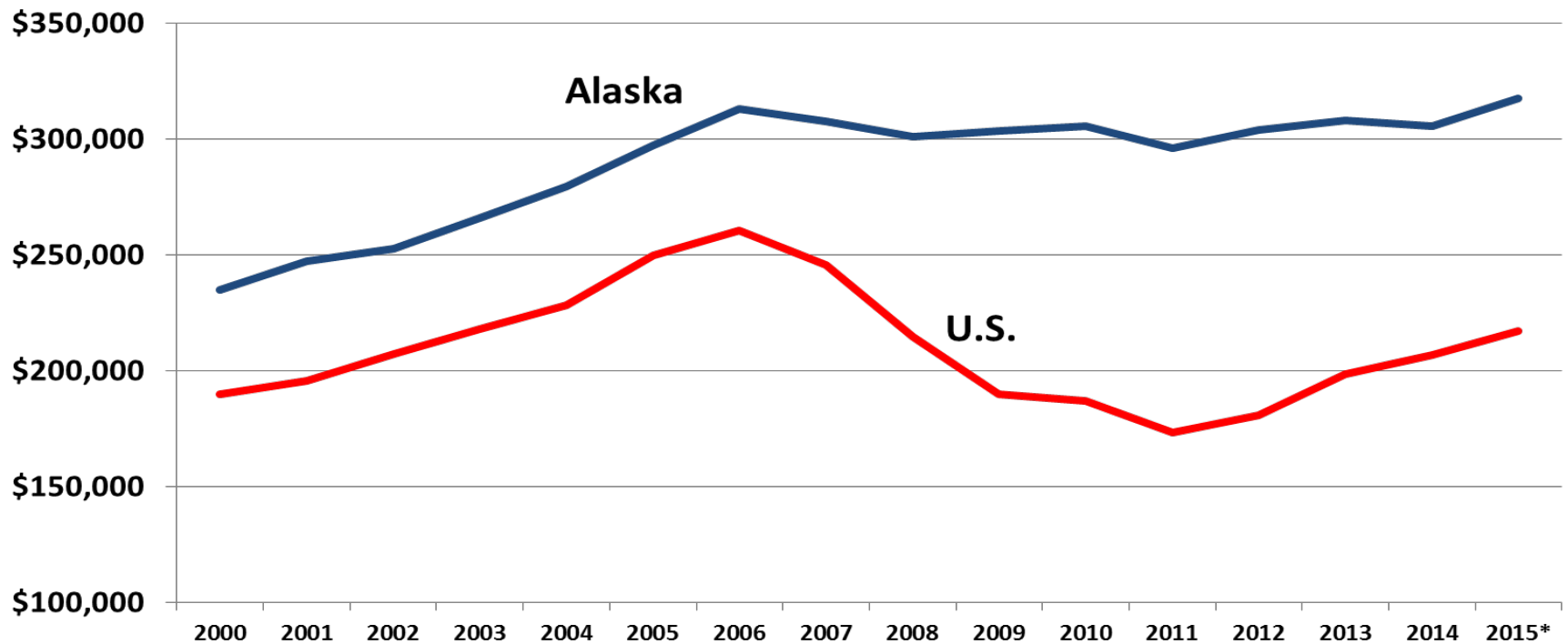


Alaska personal income continued to grow in 2015.



Alaska's housing market is not showing signs of significant weakness.

Average Single-Family Sales Prices in 2015 Dollars Alaska and U.S.

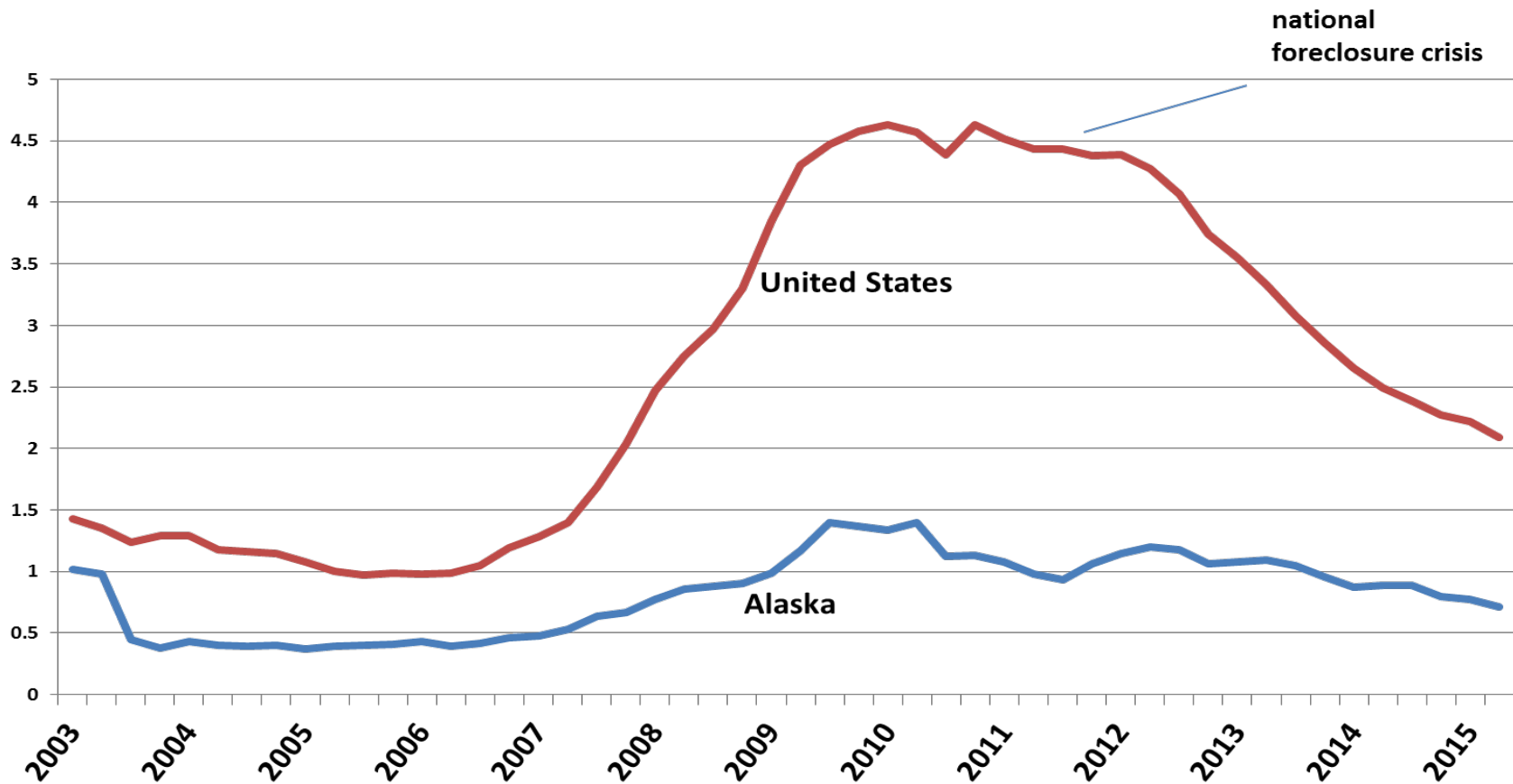


* 1st half 2015

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section, Quarterly Survey of Mortgage Lending Activity; National Association of Realtors

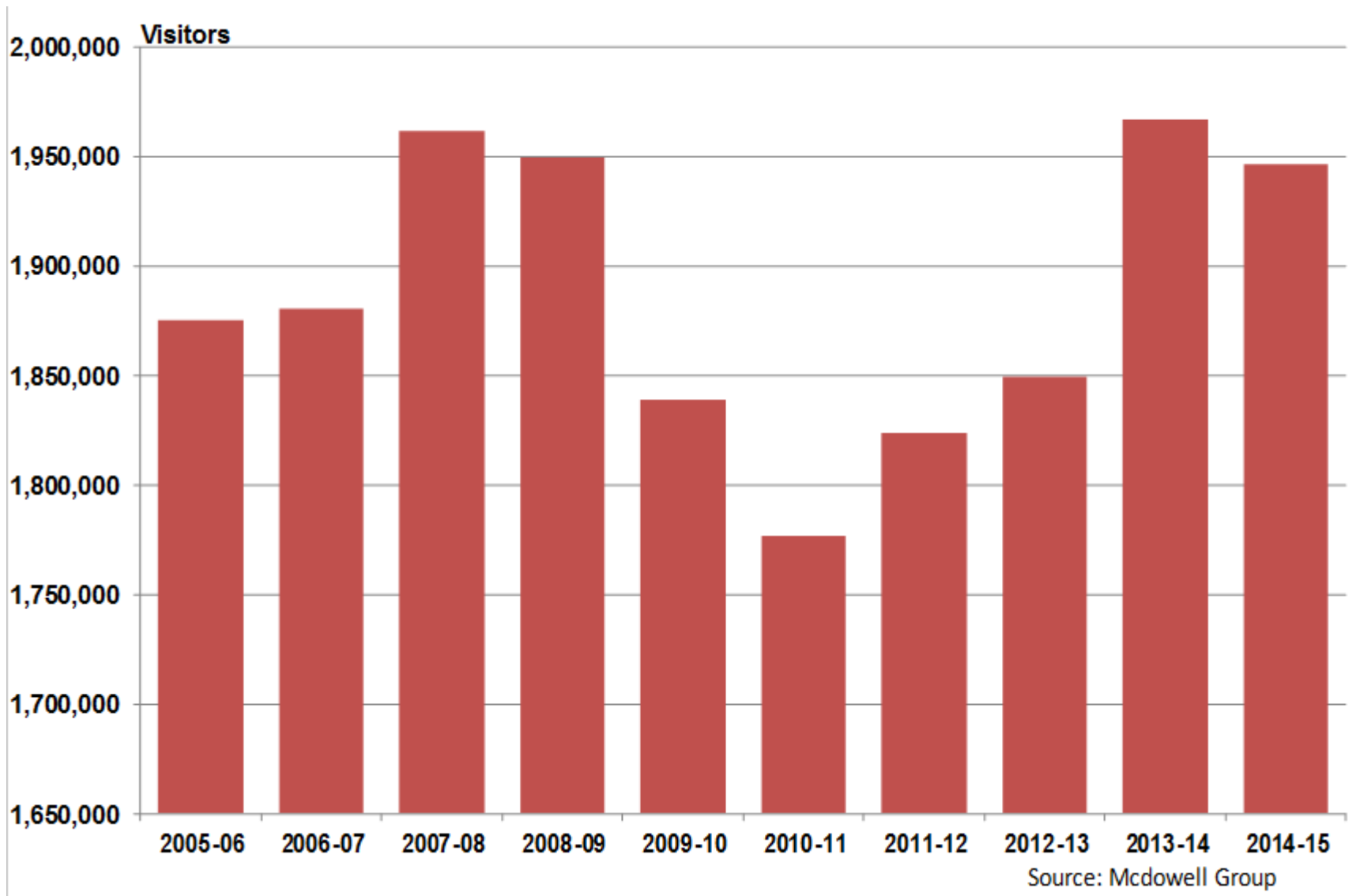
Alaska's housing market is not showing signs of significant weakness.

Foreclosure Rate, Alaska and the U.S.

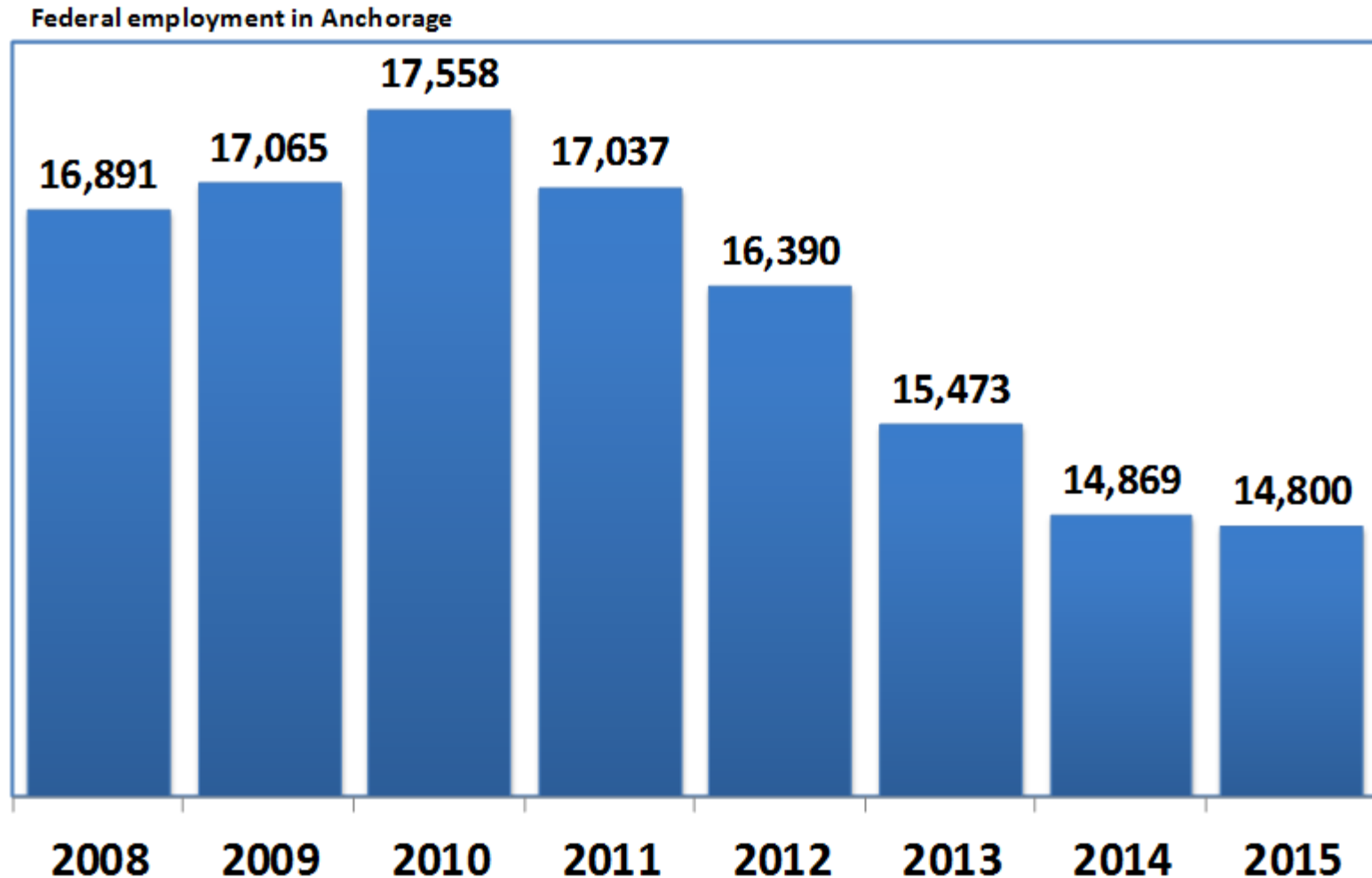


Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; Mortgage Brokers Association

Alaska's visitor industry is doing well.

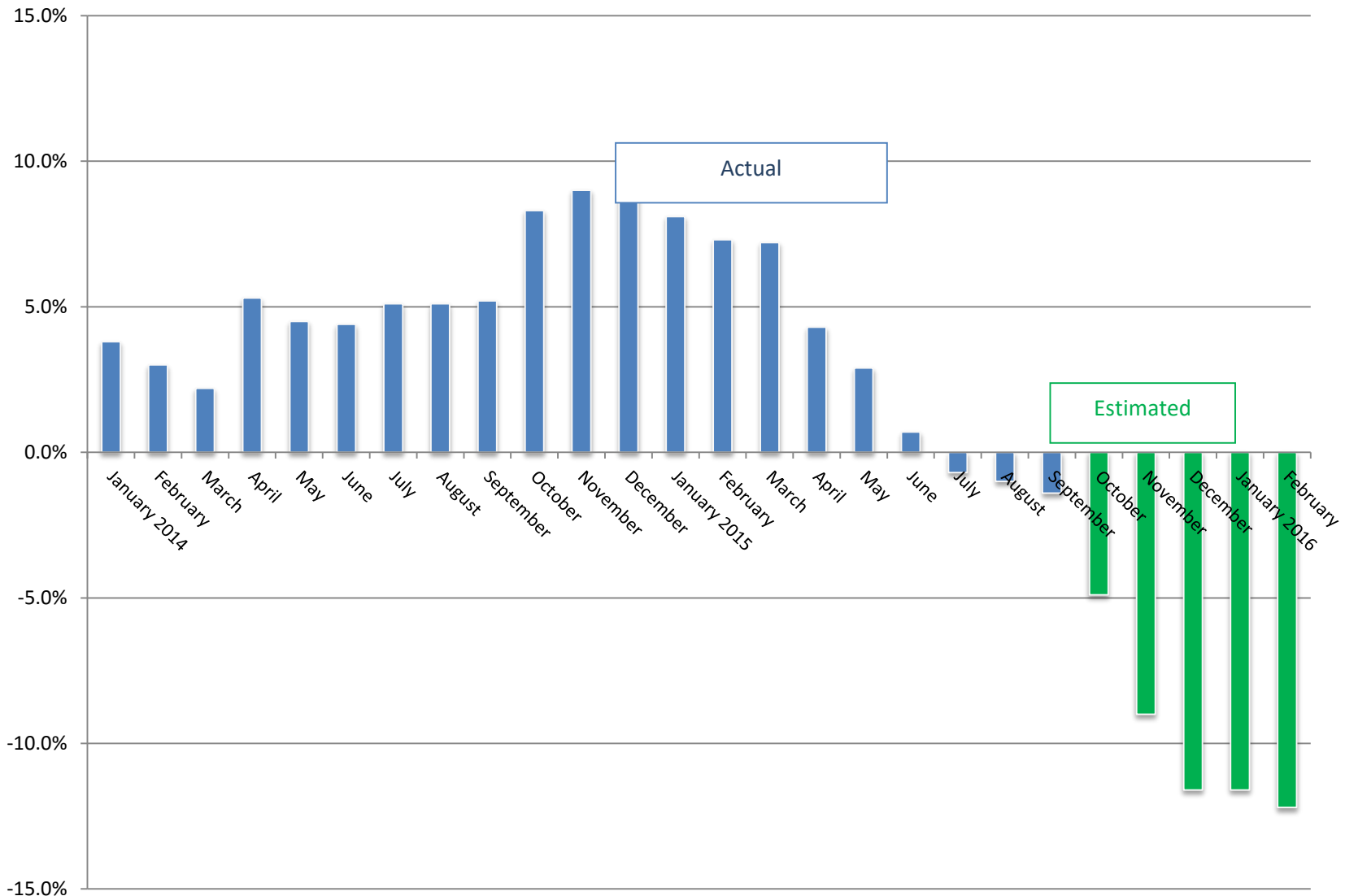


Federal job losses have been a significant drag on Alaska's economy in recent years—but these job losses appear to be easing.

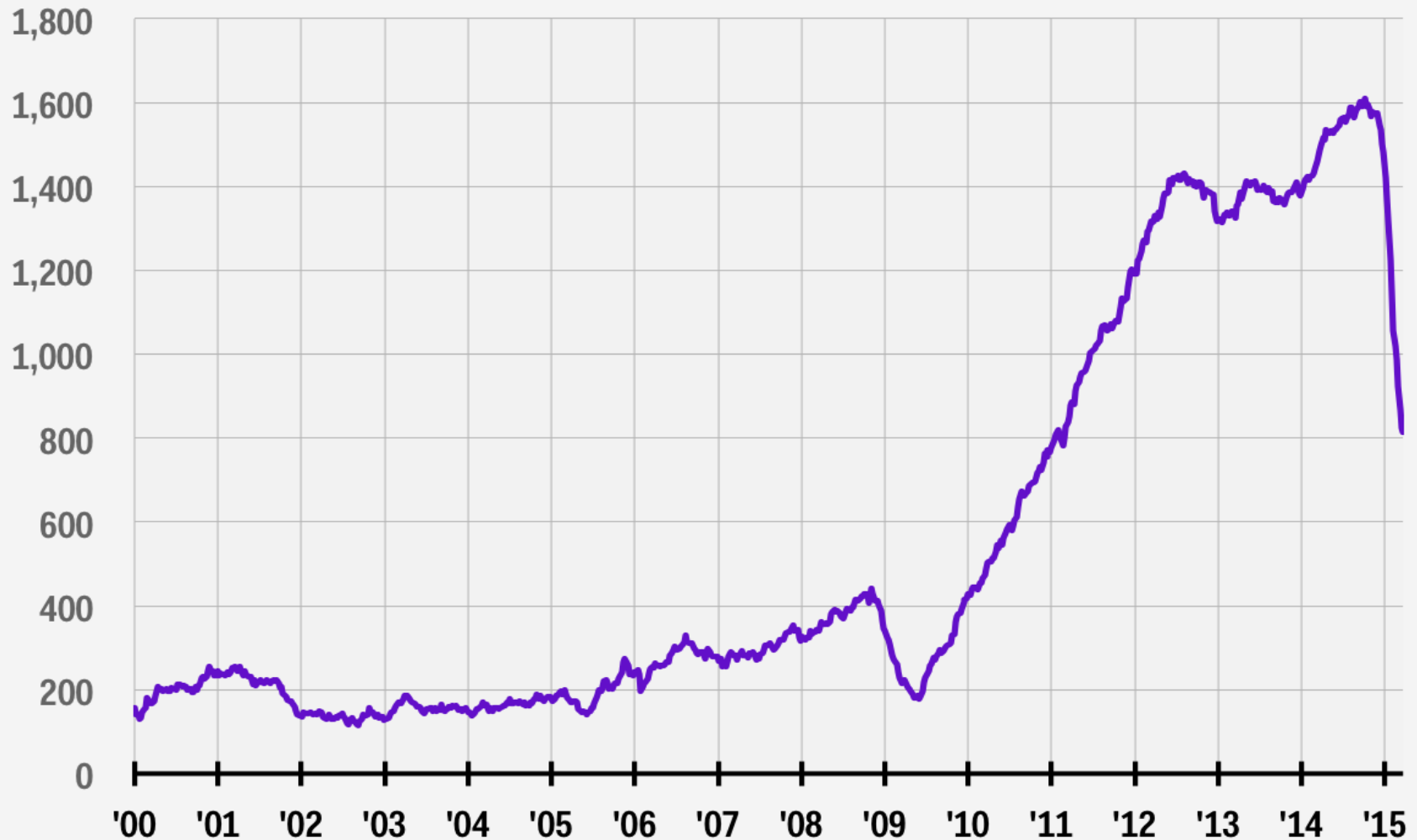


But job losses are occurring in selected economic sectors . . .

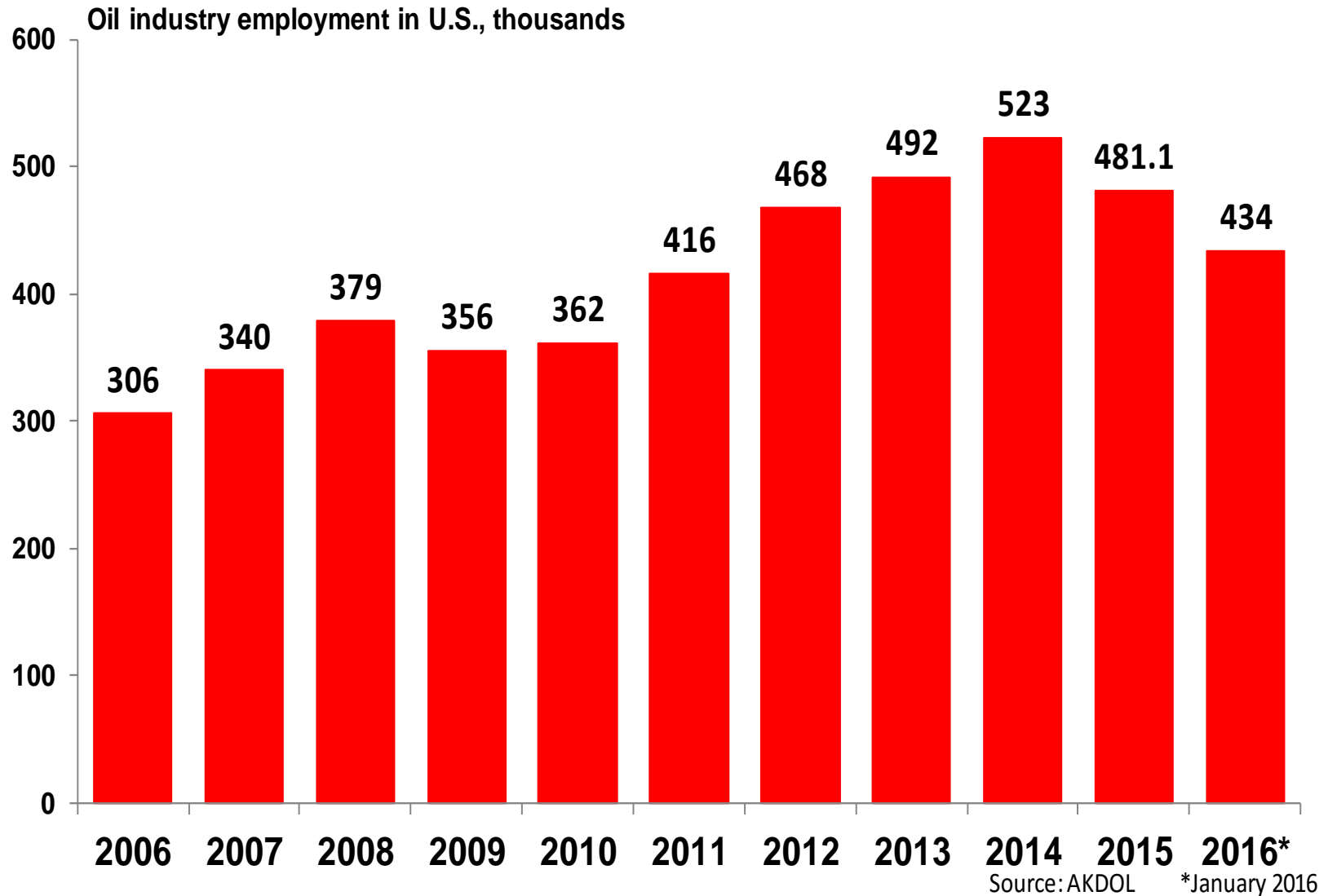
Oil and Gas Jobs, Over-the-year Percent Change



US Oil Rig Count

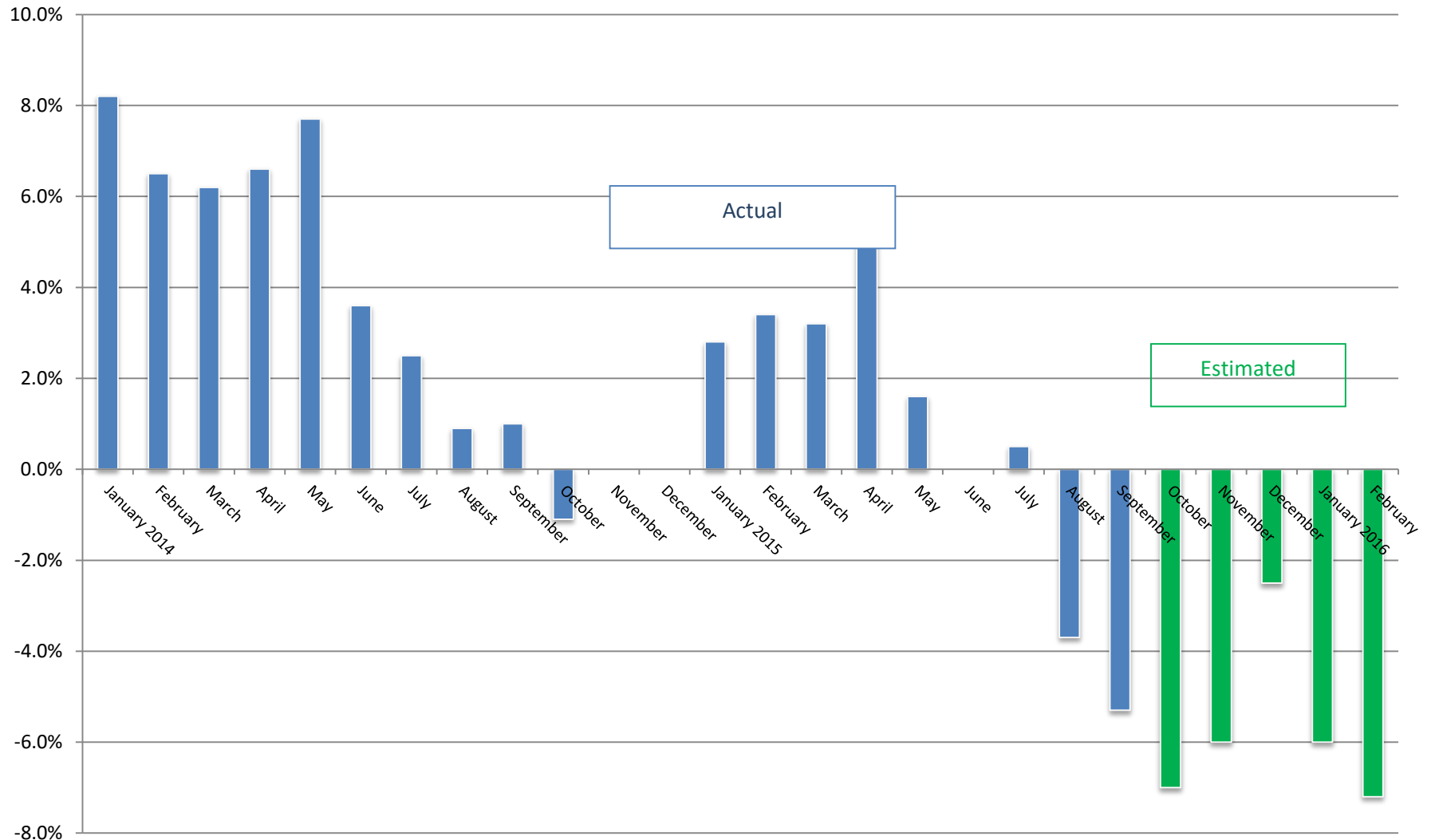


National Oil Industry Employment



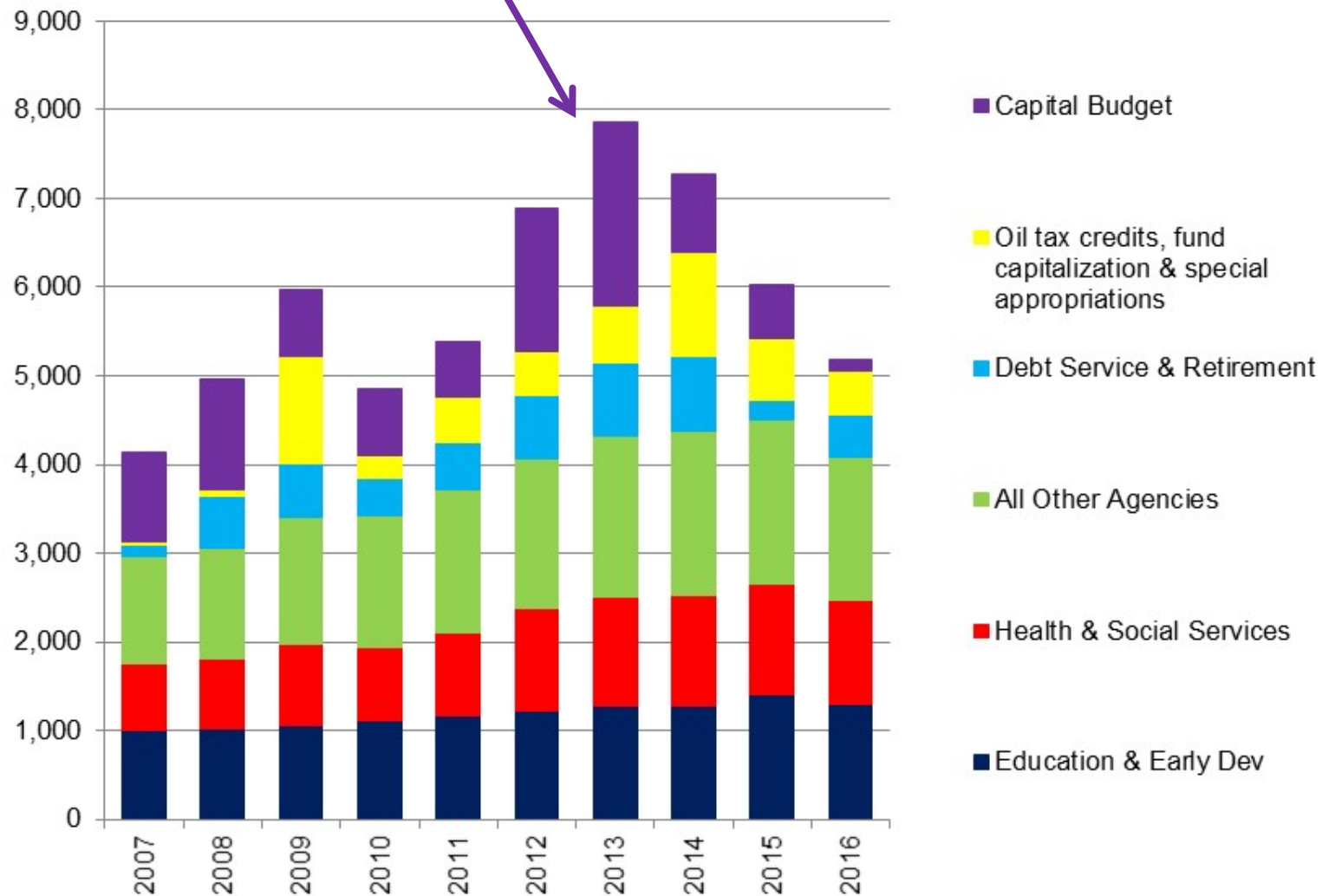
Job losses in selected economic sectors . . .

Construction Jobs, Over-the-year Percent Change

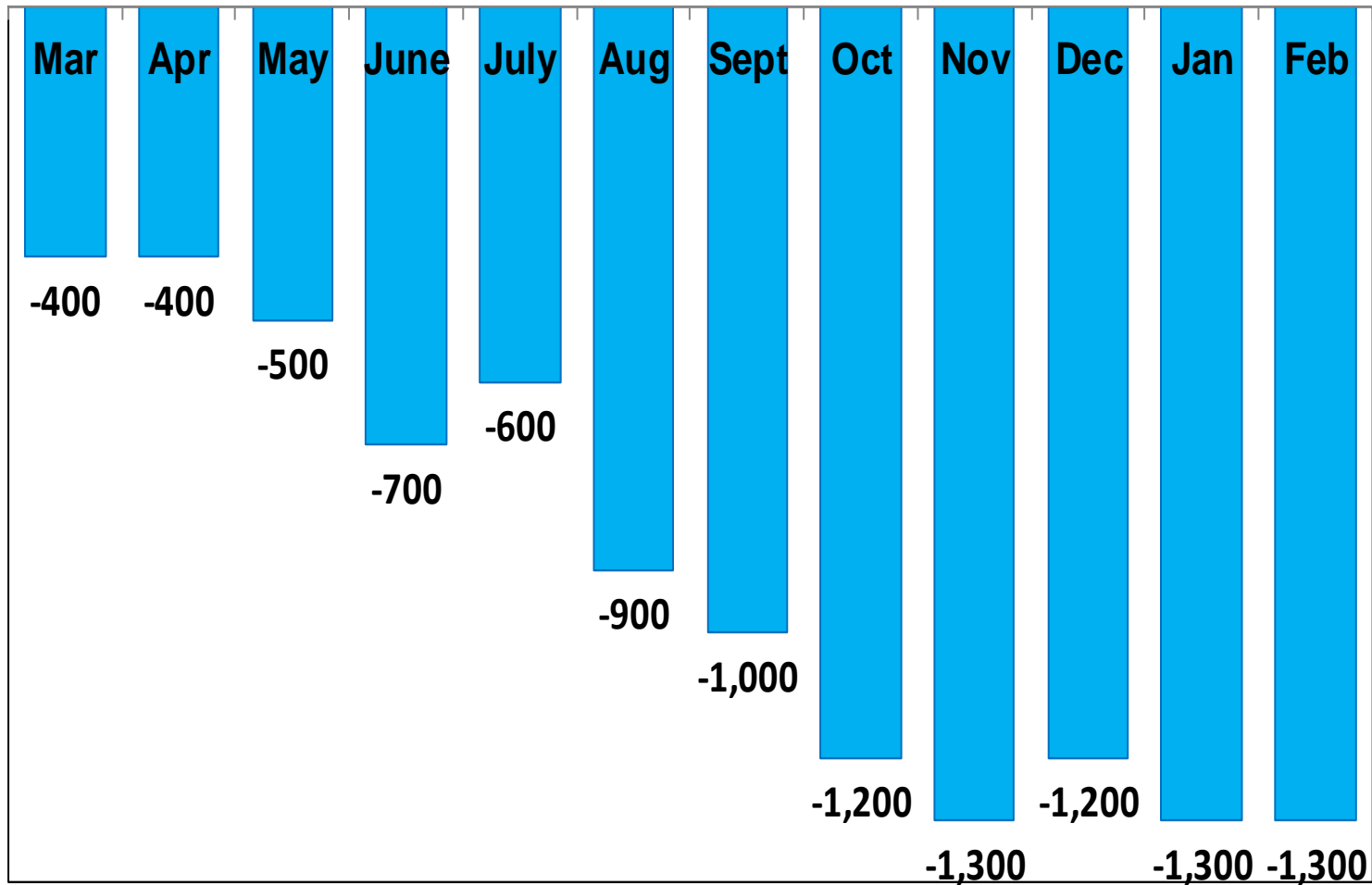


The capital budget has been cut very sharply over the past four years.

General Fund Budgets, FY07-FY16
(\$ millions)

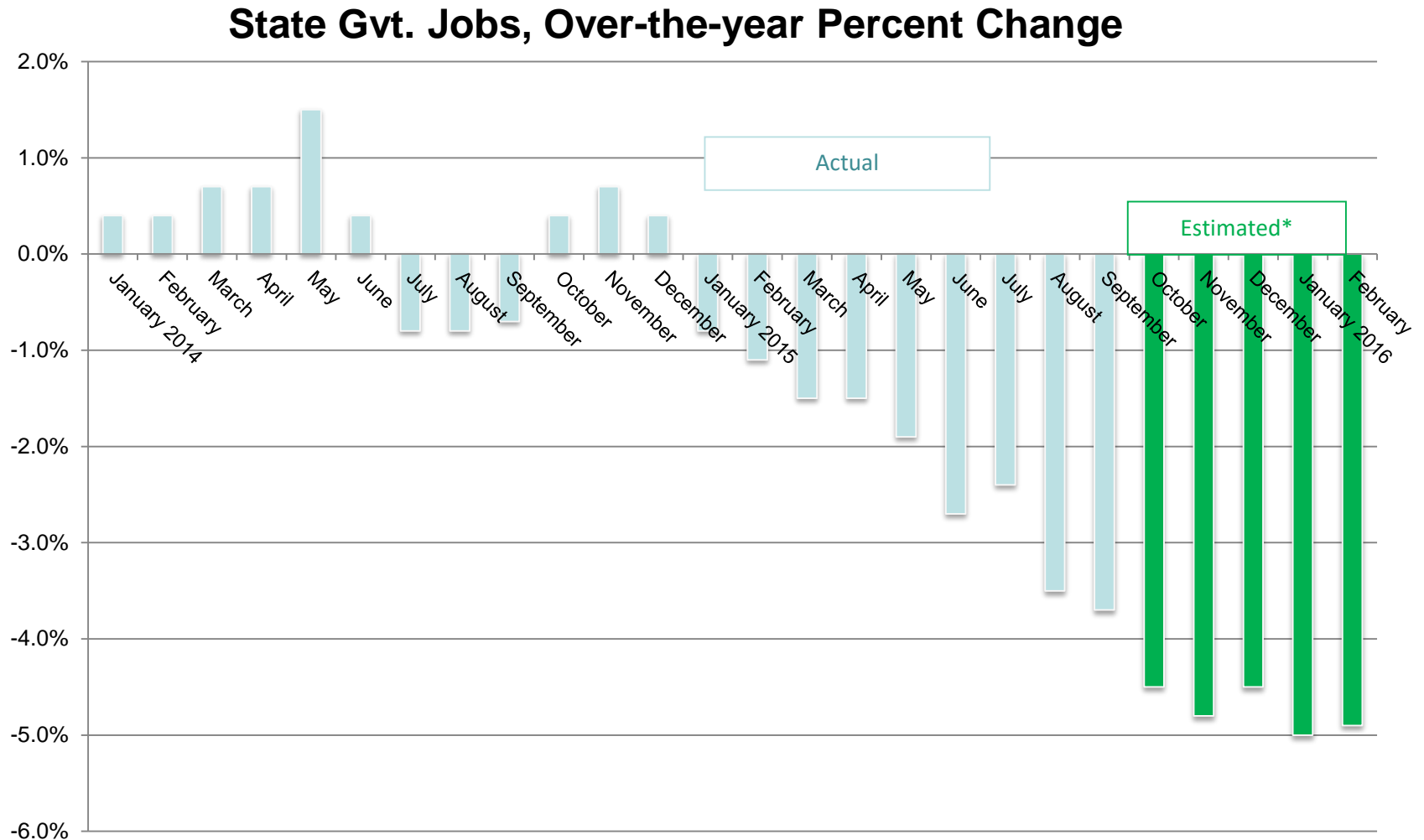


State Government Job Losses Growing 2015-2016



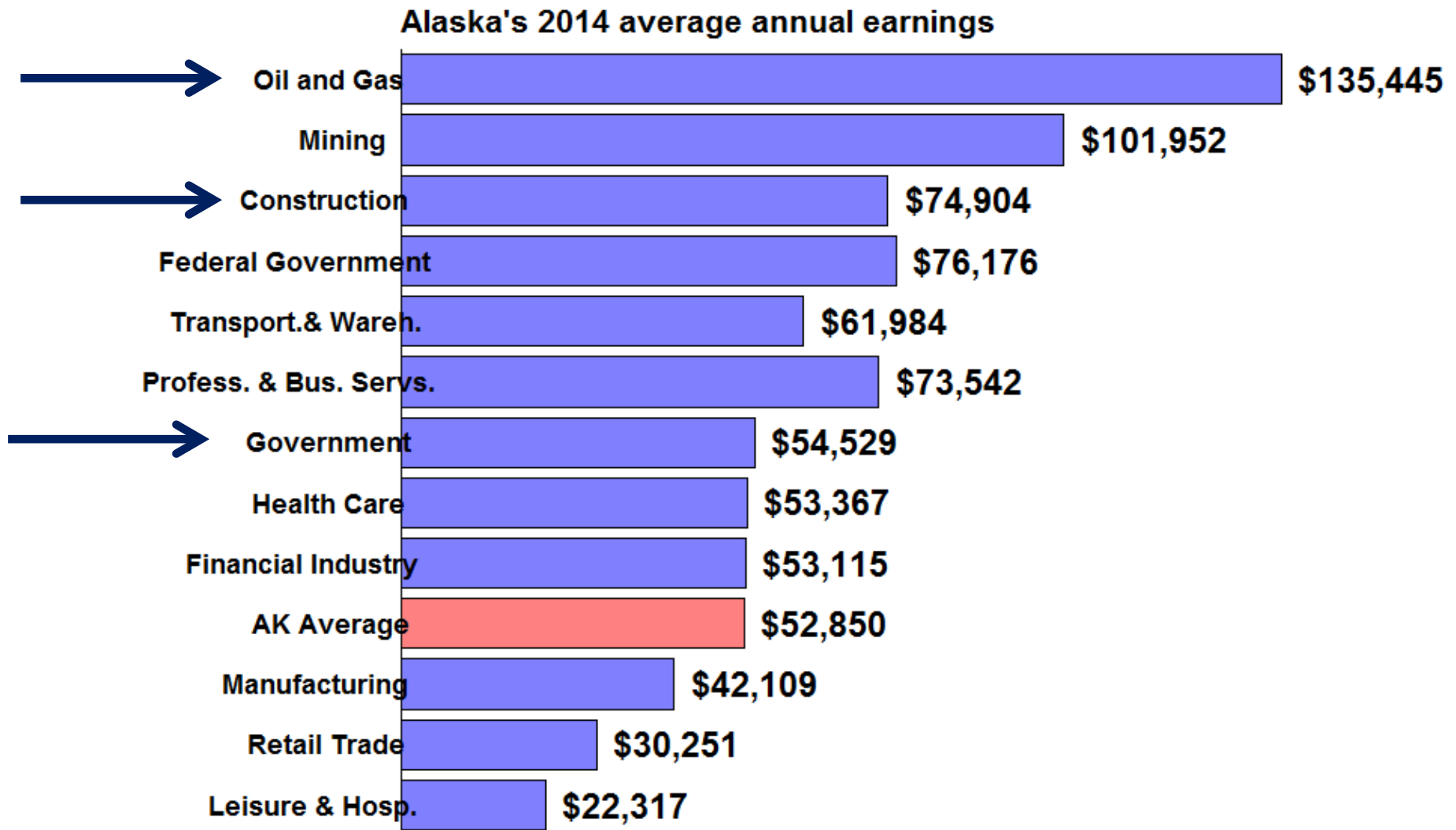
***Total State Government Employment was 25,200 . February 2016**

Job losses in selected economic sectors . . .



* State government estimates are more reliable than other estimates because the job numbers come directly from state payroll data.

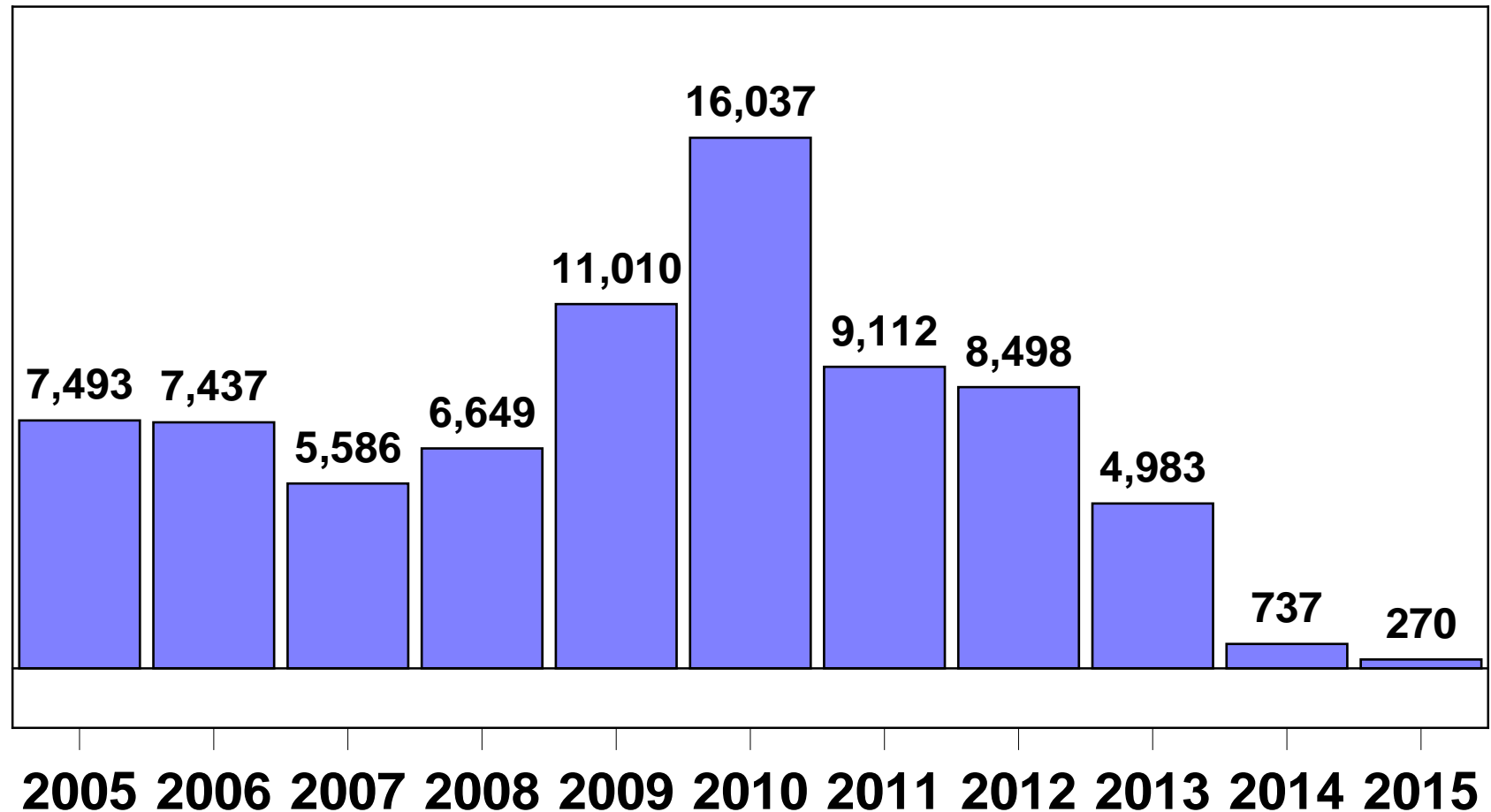
We are losing jobs in high-wage sectors of the economy



Alaska's Population Gains Grew With National Recession--But Now Slowing

Alaska's total 2015 population count was 737,624

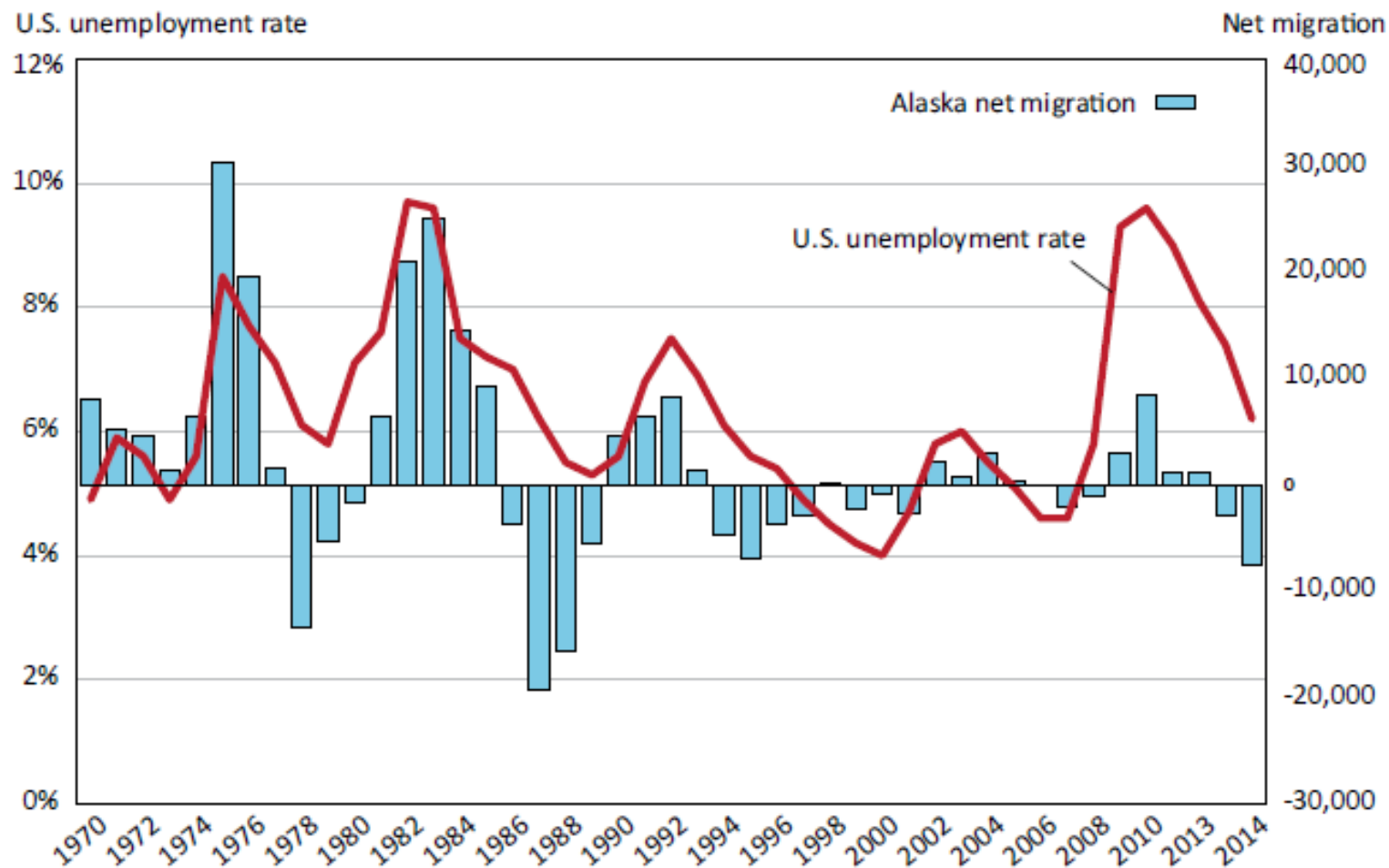
Total annual population gains Alaska



1

Alaska Migration, U.S. Jobless Rate Track Together

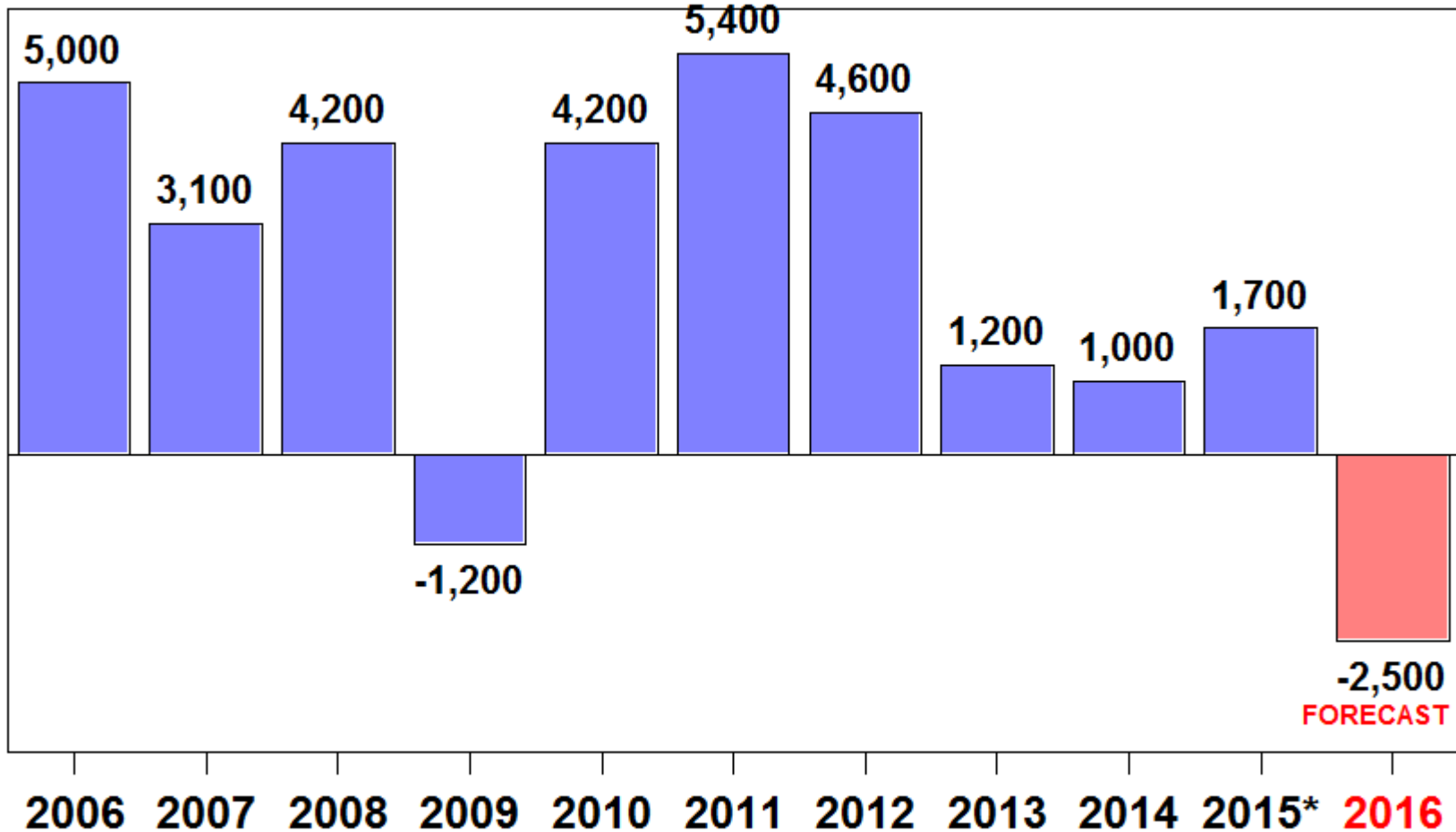
1970 to 2014



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Alaska Department of Labor and Workforce Development economic projections for 2016 . . .

Annual employment growth in AK

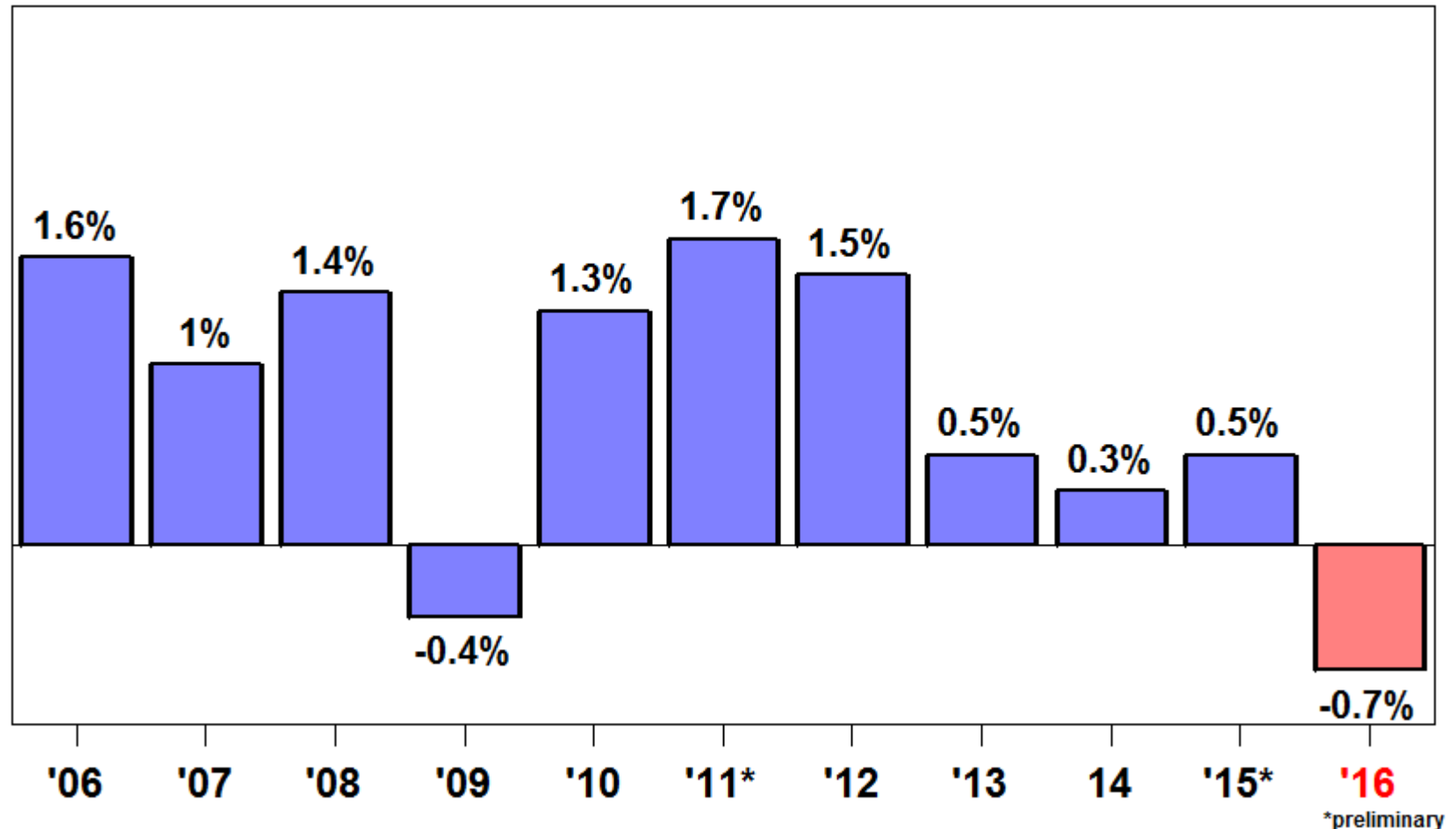


Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

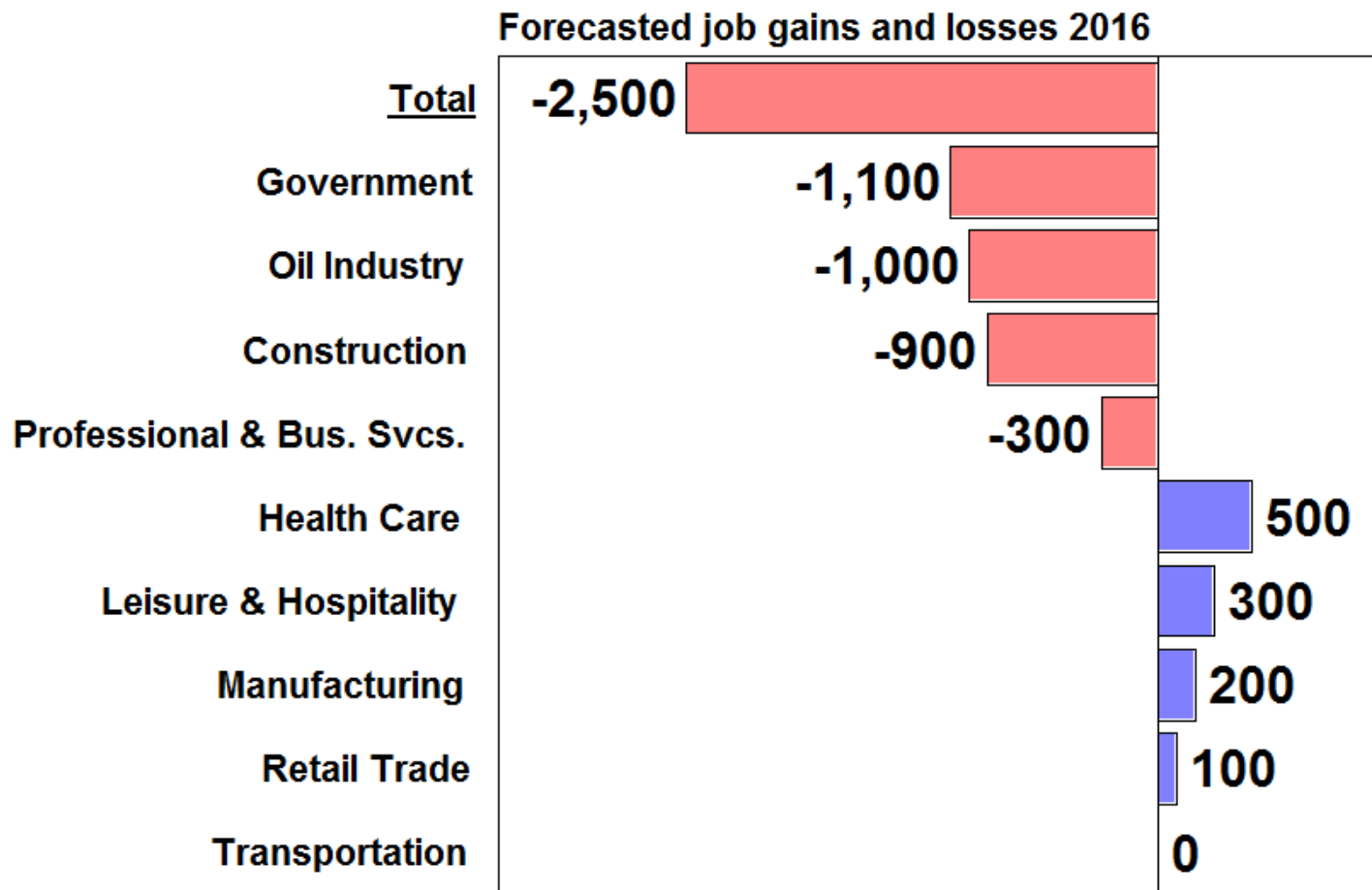
*preliminary

Alaska Department of Labor and Workforce Development economic projections for 2016 . . .

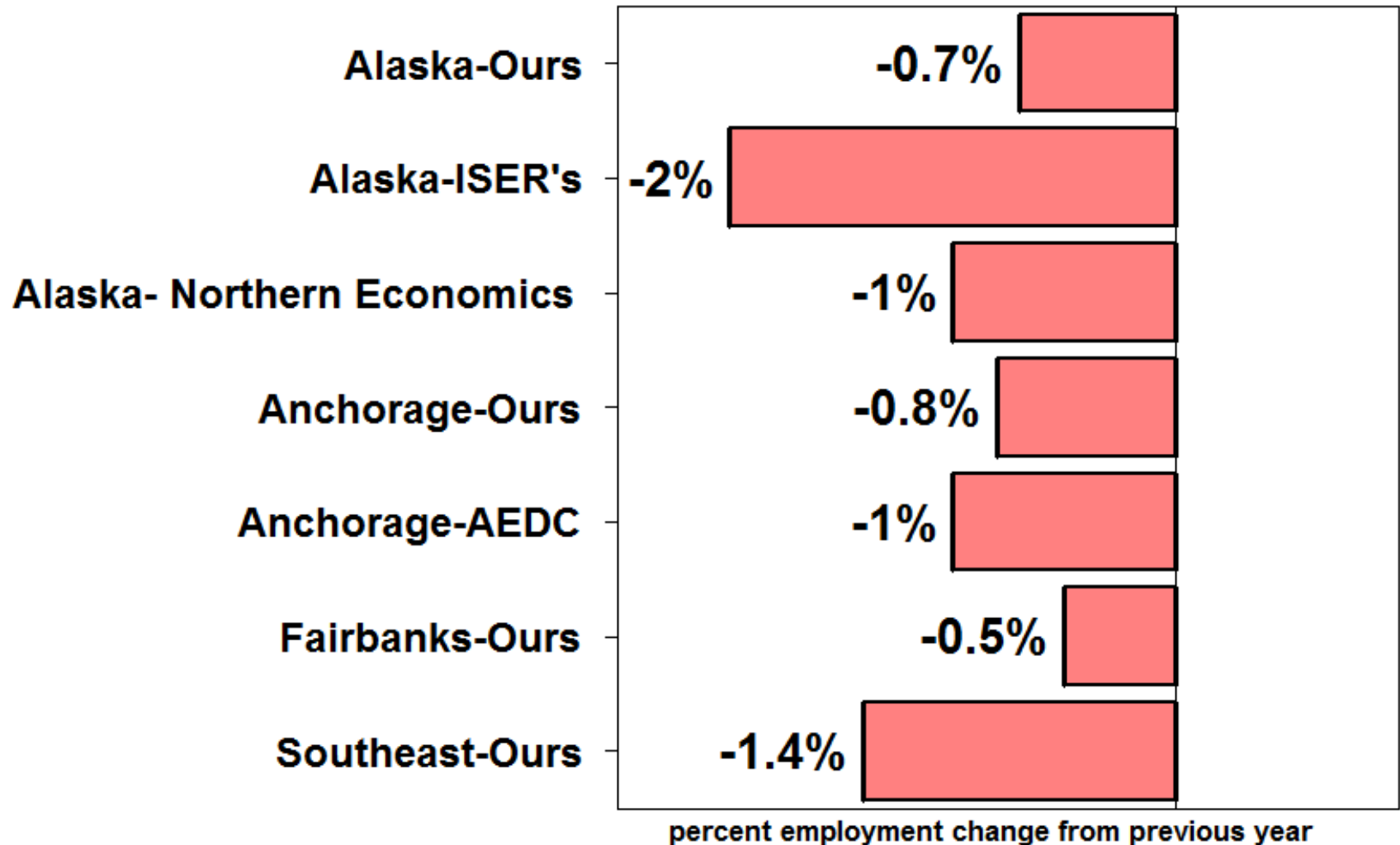
percent employment change from previous year-AK



Where Jobs Are Forecast To Come From And Disappear From In 2016

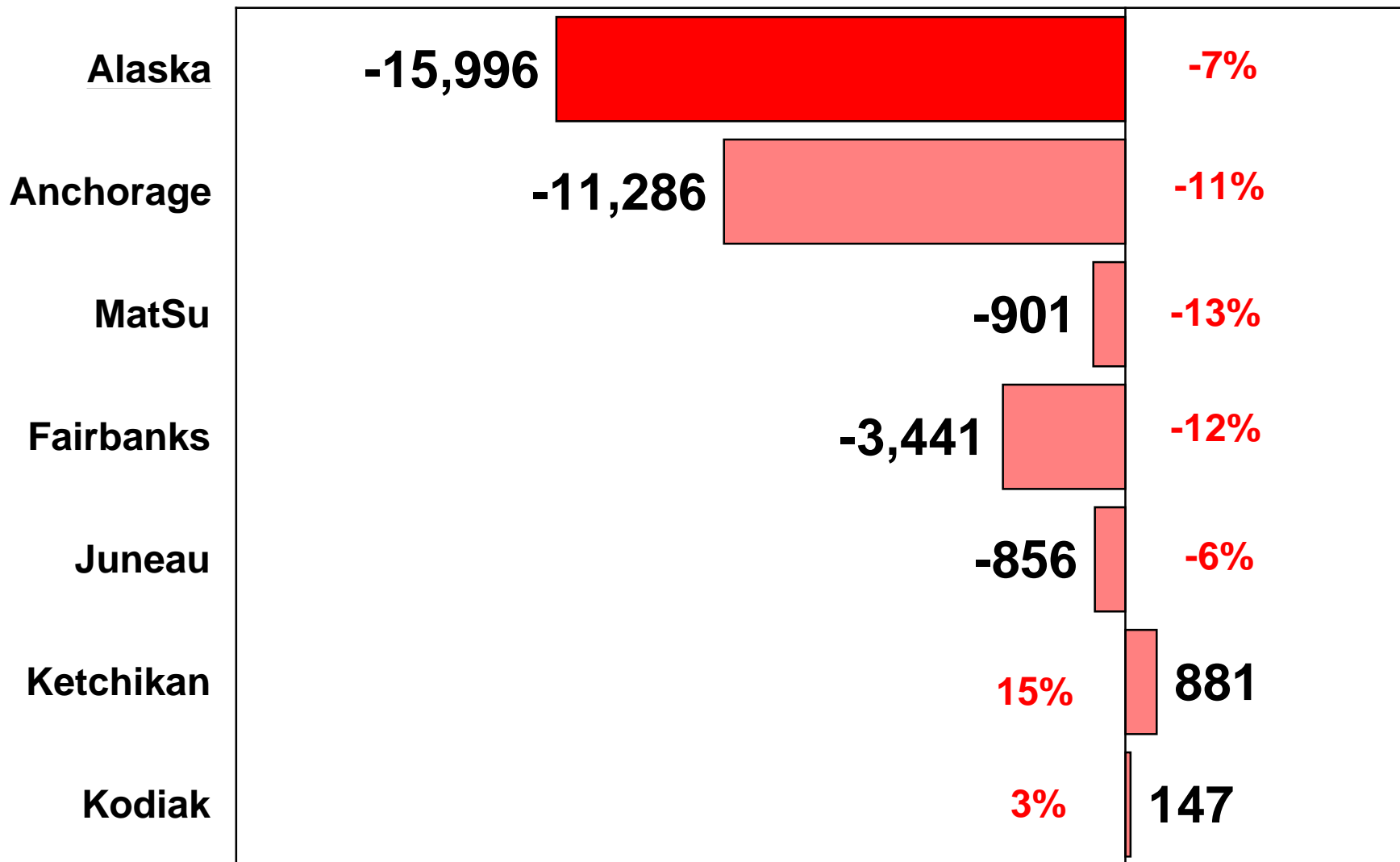


Alaska Department of Labor and Workforce Development
comparison of their economic projections for 2016 (“ours”)
with other projections . . .



The Extent Of Job Losses During Alaska's “Great Recession” Of The 1980s

Jobs lost and gained between 1985-1988



The 1980s and now: What's different?

- Economy (as measured by jobs) is about 50% larger
- Older population bringing in much more retirement income
- Alaska Native Corporations bringing significant income to Alaska
- Much larger Permanent Fund dividend a stabilizing factor in the economy
- Visitor industry has grown dramatically
- Bank lending has been more conservative: people are less overextended in their borrowing
- Housing markets are much tighter and stronger
- We have not been experiencing a construction boom

Alaska housing markets are much stronger now
than they were in the 1980s.

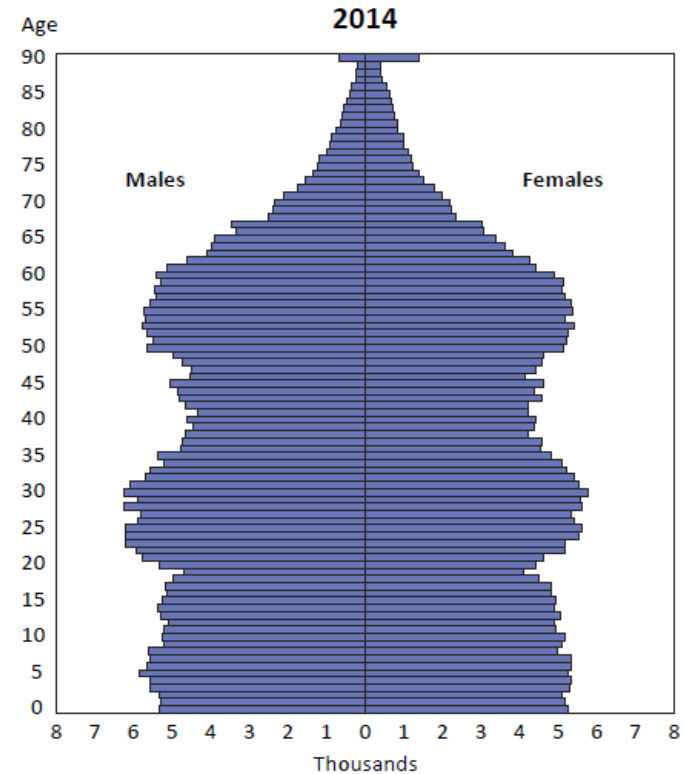
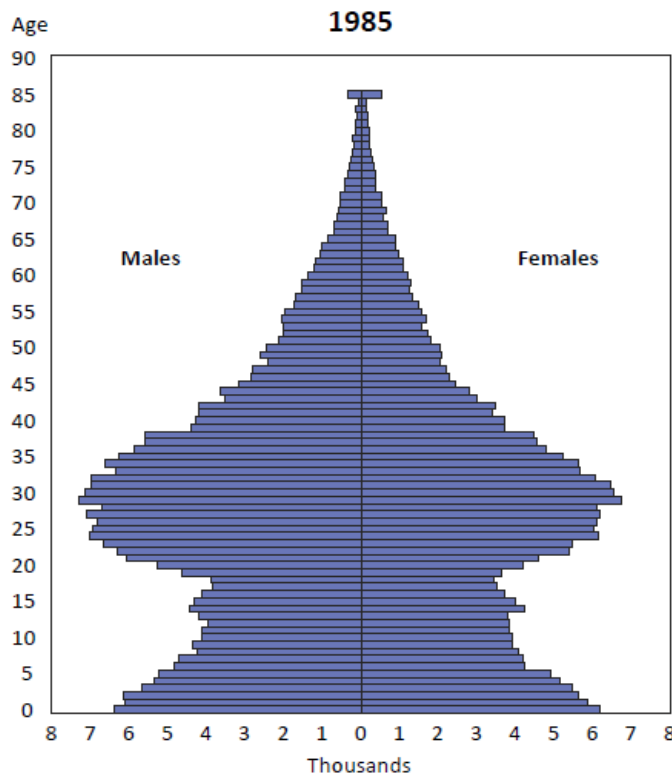
Anchorage residential building permits issued in 1983	9082
Total Anchorage residential building permits issued, 2006-2015	6,808

As Alaska's population has aged, retirement income represents a significantly larger share of Alaska income, and a stabilizing component of the economy.

4

The Population Has Gotten Older

ALASKA'S AGE STRUCTURE, 1985 AND 2014



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

ISER's study of Short-Run Economic Impacts of Alaska Fiscal Options

The study is posted on
ISER's website at
www.iser.uaa.alaska.edu

SHORT-RUN ECONOMIC IMPACTS OF ALASKA FISCAL OPTIONS

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March 30, 2016

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What we studied, for selected fiscal options . . .

- Revenue impacts of taxes and dividend cuts
 - What share would non-residents pay?
 - What share would be offset by lower federal taxes?
 - What would be the relative impacts on different income groups?
- Short run economic impacts of spending cuts, taxes and dividend cuts. Per hundred million of deficit reduction:
 - What would be the impacts on Alaskans' incomes?
 - What would be the impacts on Alaska jobs?
- Total economic impacts of reducing the deficit
 - What would the total short-run impacts on income and jobs of reducing the deficit by different amounts?
- Regional economic impacts
 - How would the impacts of different options vary between regions?

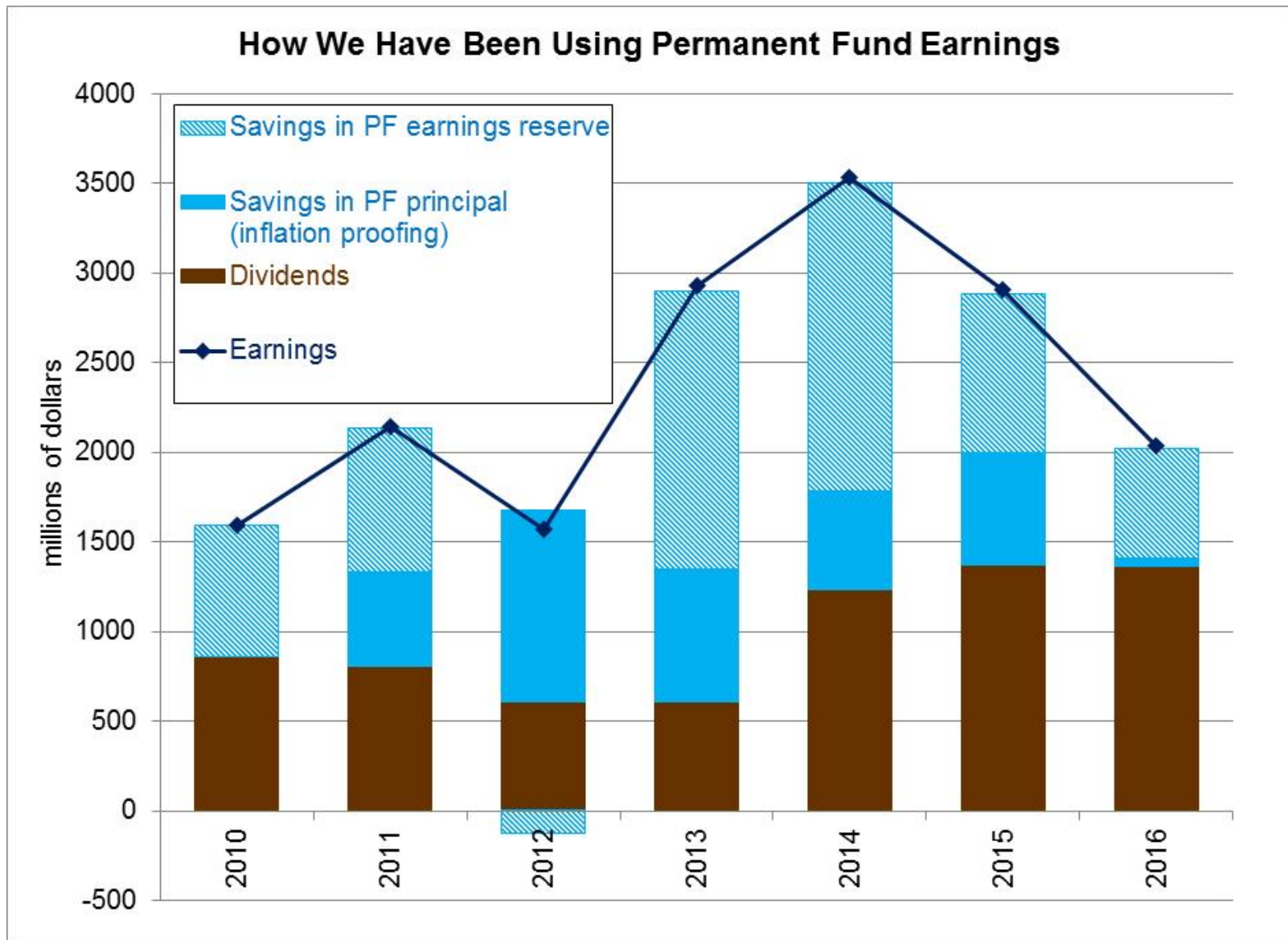
We only studied short-run direct economic impacts of fiscal options. There are many other important potential impacts which we *didn't* study.

- A few examples of impacts we *didn't* study:
 - Economic impacts of reductions in government services
 - Impacts on investment
 - Impacts on infrastructure development & resource industries
 - Impacts on labor markets & population
- Our fiscal choices will significantly affect Alaska's future
- We should think about not only their short-term economic impacts but also their longer-term economic and social impacts.

Of all the options for reducing the deficit, only **saving less** (and using the money to fund government) would have no short-run economic impacts on the Alaska economy.

- Options for **saving less** include:
 - Reducing inflation-proofing transfers to PF principal
 - Adding less to the PF earnings reserve
- **Saving less** would not:
 - take *any* money out of the economy
 - have *any* short-run impacts on jobs or income
- But it would reduce:
 - our future investment earnings
 - how much savings we leave for future Alaskans

From 2010 to 2015, we saved an average of \$1.4 billion annually of Permanent Fund realized earnings

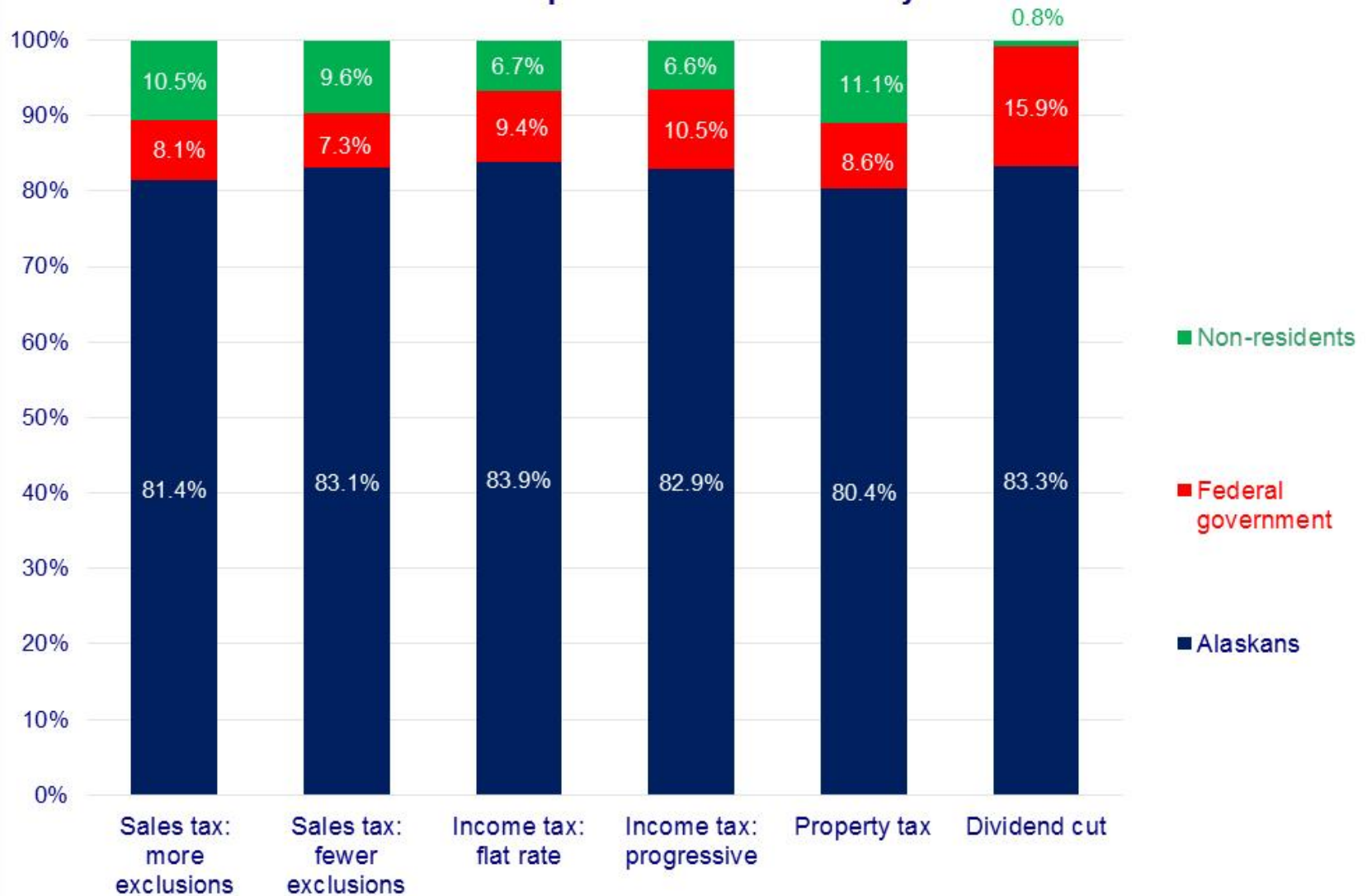


All of the other options for reducing the deficit, including
spending cuts, taxes, and dividend cuts,
would have significant short-run economic impacts.

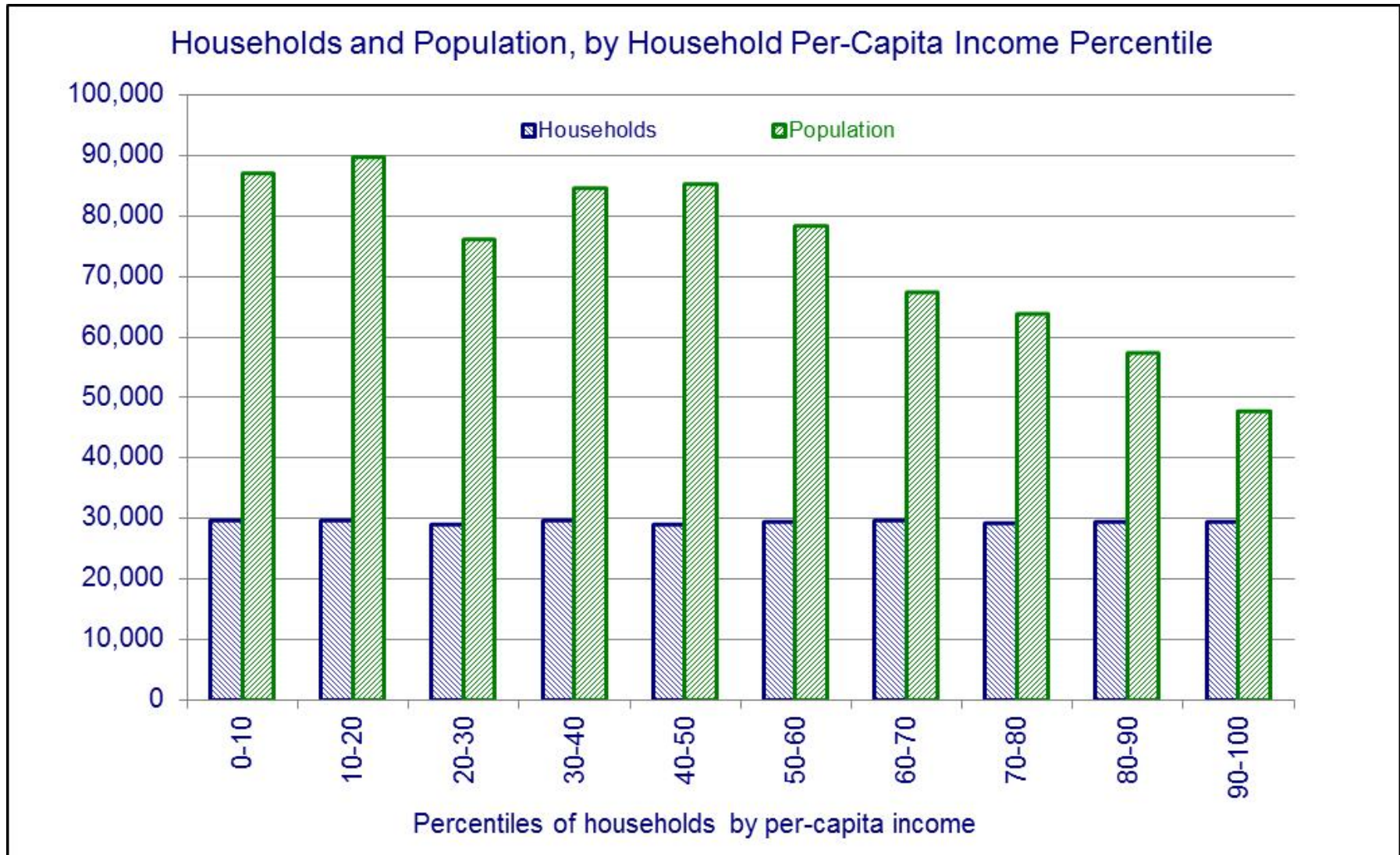
They would *all* take significant amounts of money out of the economy.

But they would do so in different ways,
with different impacts on different Alaskans
and different relative impacts on public and private income & jobs.

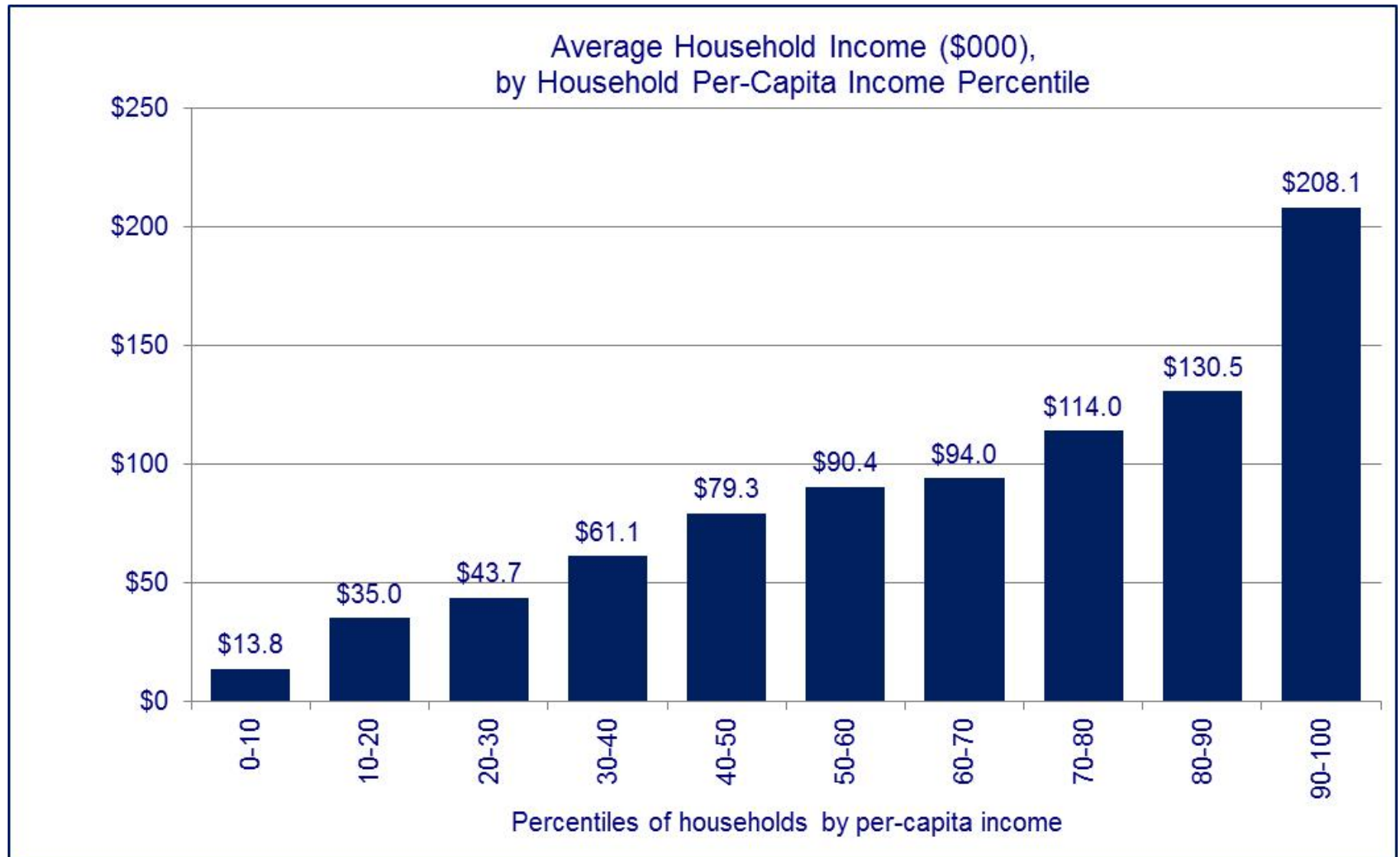
Alaska Fiscal Options: Who Would Pay?



We estimated effects of taxes and dividend cuts for 10 groups of Alaska households, grouped by their per-capita cash income in 2013, from the lowest 10% to the highest 10%

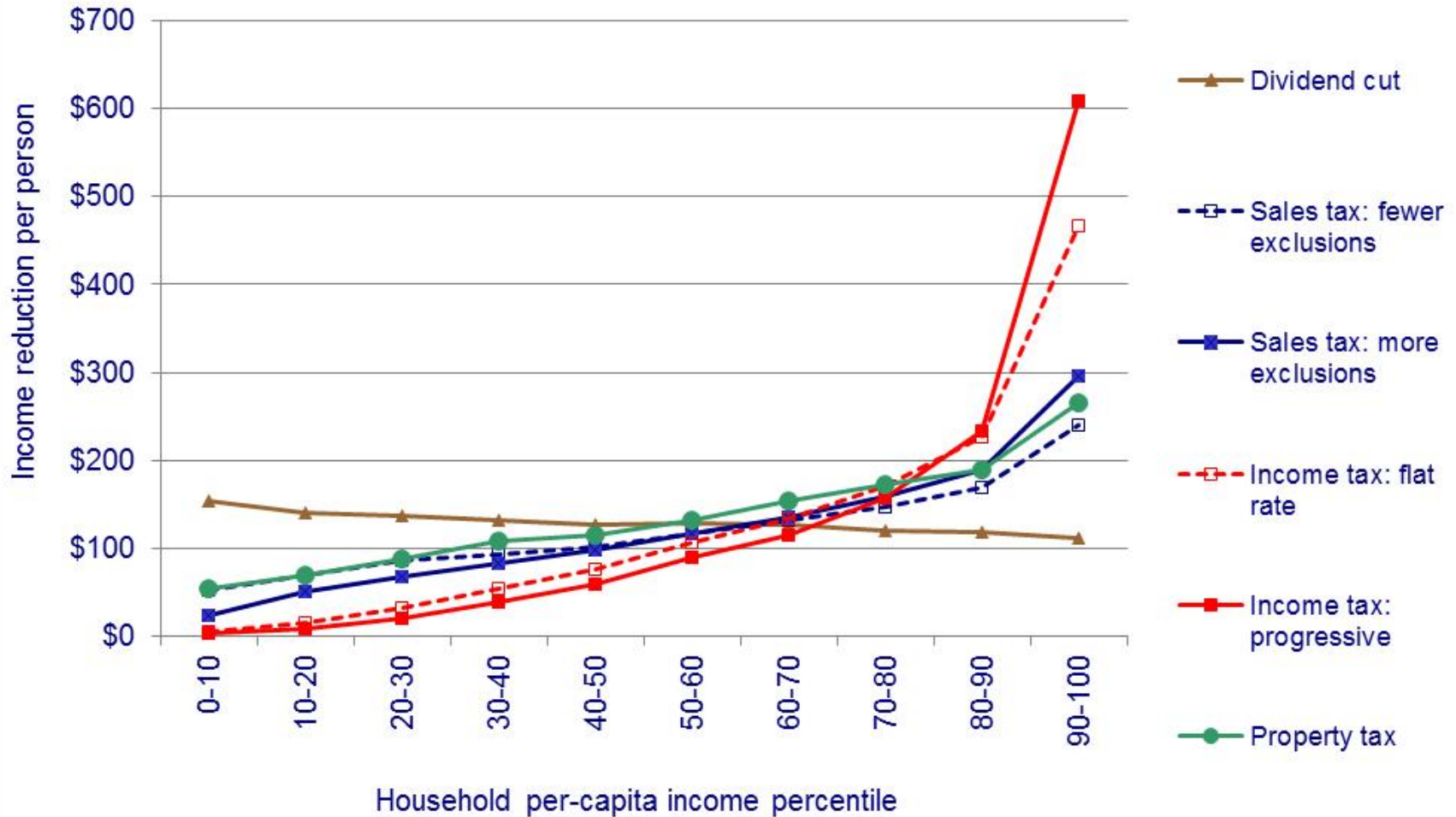


The three lowest-income groups had average household incomes of less than \$45,000.
The highest-income group had an average household income of more than \$200,000.

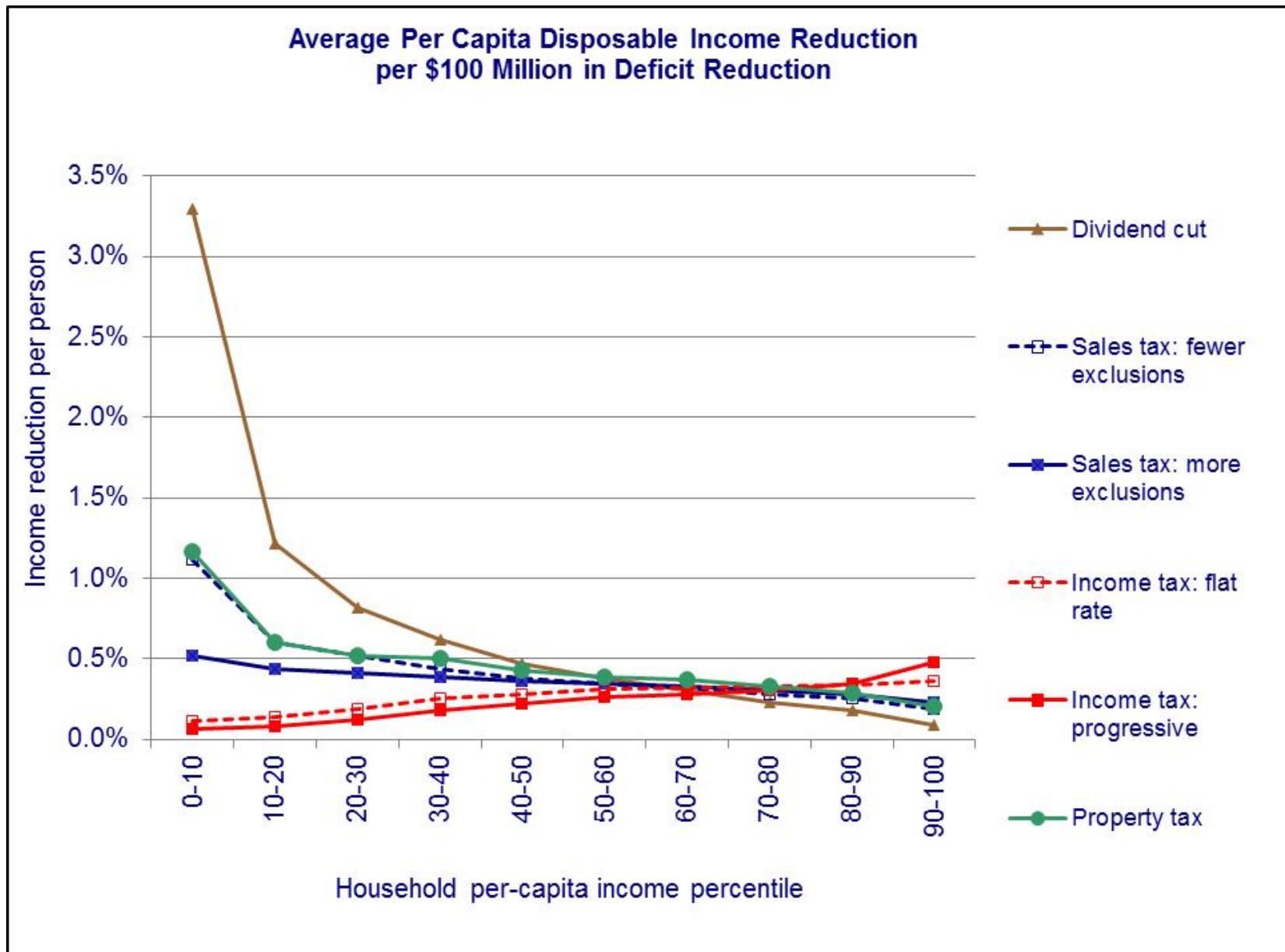


How options affect different groups: income reduction per person

Average Per Capita Disposable Income Reduction
per \$100 Million in Deficit Reduction



How options affect different groups: percentage income reduction per person



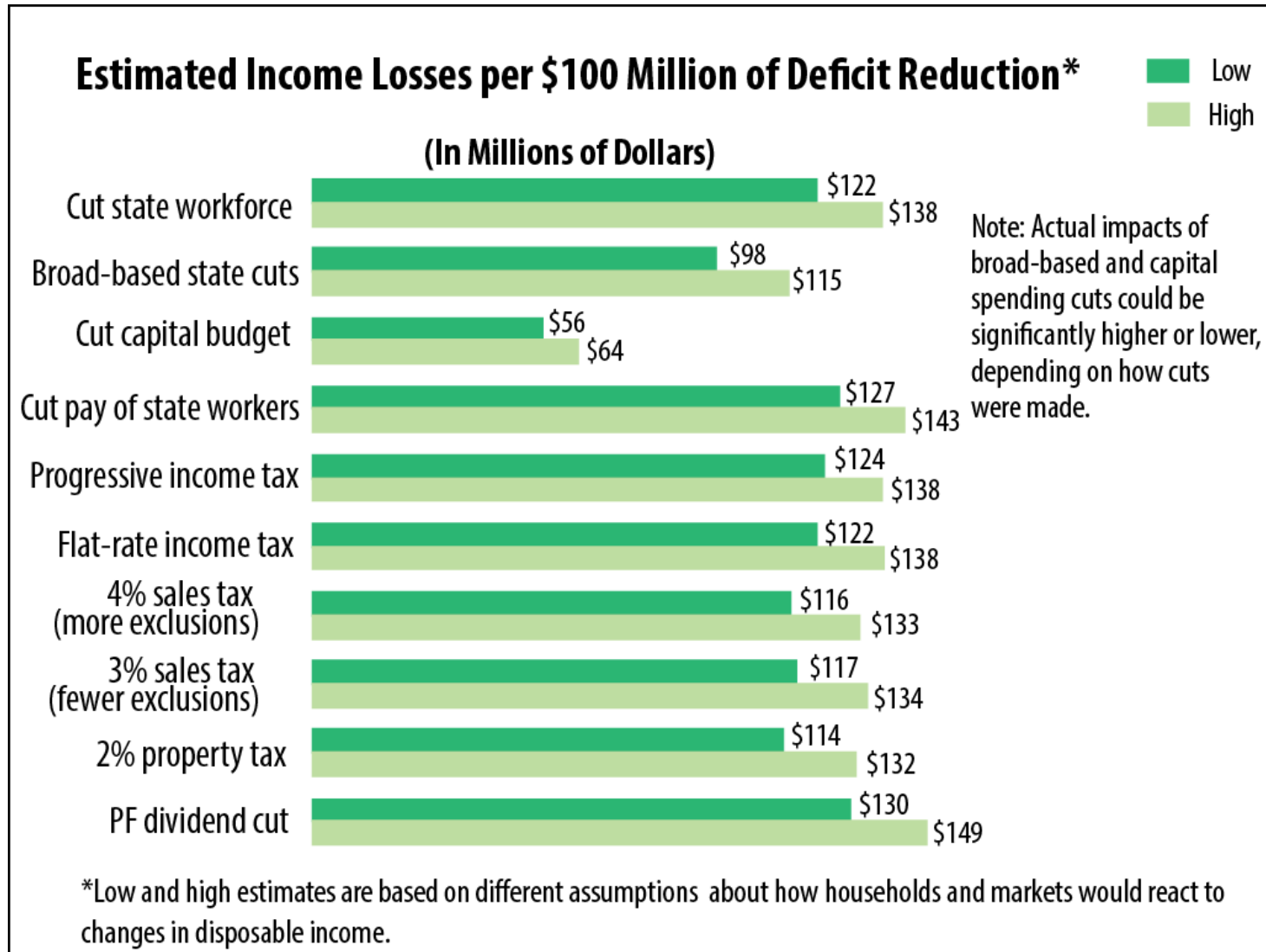
Short-run economic impacts of **spending cuts** depend on what is cut

What is cut affects the extent to which the cuts directly affect jobs and income of government and contractor workers and the resulting multiplier effects on the economy.

What is cut also affects the extent to which the cuts have other short-run impacts on the economy, such as:

- Transportation (Marine Highway service, road plowing, etc.)
- Resource management (fish catches, mine permitting)

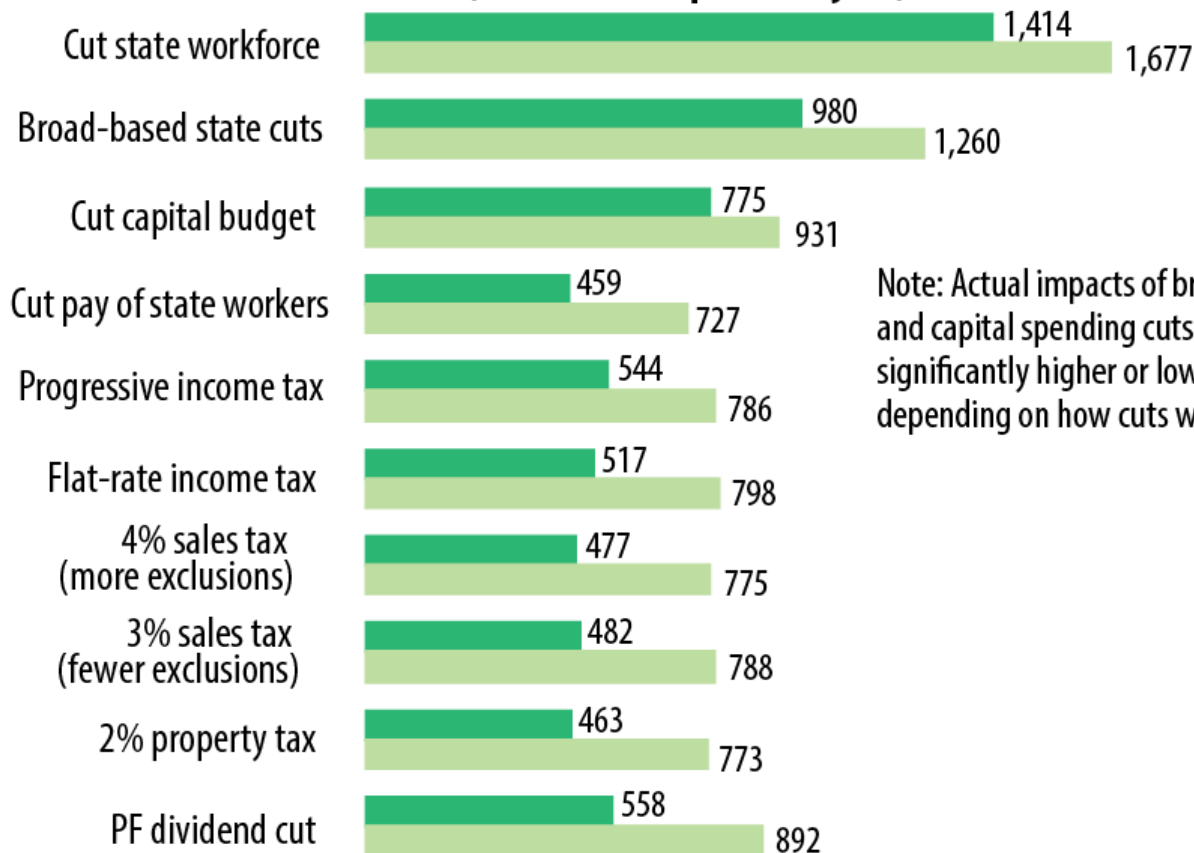
*You can't generalize about economic impacts of **spending cuts**.
Our estimates illustrate a range of potential impacts.*



Estimated Job Losses per \$100 Million of Deficit Reduction*

(In Full-time equivalent jobs)

Low
High



Note: Actual impacts of broad-based and capital spending cuts could be significantly higher or lower, depending on how cuts were made.

*Low and high estimates are based on different assumptions about how households and markets would react to changes in disposable income.

Summary of Fiscal Options & Estimated Impacts per \$100 Million of Deficit Reduction

Fiscal Option	Direct economic impacts	Who would be most affected	Short-run income impacts (\$ millions)	Short-run job impacts (FTE jobs)
Spending cut: workers	Reduce gov't jobs & pay	Gov't workers	122 - 138	1414 - 1677
Spending cut: broad-based	Reduce gov't jobs & pay Reduce other gov't purchases	Gov't workers Gov't contractors & workers	98 - 115	980 - 1260
Spending cut: capital	Reduce gov't capital spending	Construct. ind. & workers	56 - 64	775 - 931
Spending cut: pay	Reduce gov't employee pay	Gov't workers	127 - 143	459 - 727
Income tax: progressive	Reduce Alaskans disposable income	Higher income Alaskans	124 - 138	544 - 786
Income tax: flat rate			122 - 138	517 - 798
Sales tax: more exclusions		Medium & lower income Alaskans	116 - 133	477 - 775
Sales tax: fewer exclusions			117 - 134	482 - 788
Property tax			114 - 132	463 - 773
Dividend cut	Reduce Alaskans' income	Lower income Alaskans	130 - 149	558 - 892
Saving less	No short-term impacts	Future Alaskans		

Note: The numbers shown for income and job impacts represent low and high estimates of impacts based on different assumptions about how households and markets would react to changes in disposable income.

The Permanent Fund “re-plumbing” proposals would reduce the deficit through a combination of cutting dividends and saving less.

Summary of Fiscal Options & Estimated Impacts per \$100 Million of Deficit Reduction

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Note: The numbers shown for income and job impacts represent low and high estimates of impacts based on different assumptions about how households and markets would react to changes in disposable income.

**Examples of Ranges of Estimated Economic Impacts Per \$100 Million of Deficit Reduction
Resulting from Selected Potential Combinations of Fiscal Options**

Examples of potential combinations of options	Option	Two options						Three options				Four options
	Spending cut: workers											
	Spending cut: broad-based	50%	50%		50%			33%	33%	33%		25%
	Spending cut: capital											
	Spending cut: pay											
	Income tax: progressive	50%		50%			50%	33%		33%	33%	25%
	Income tax: flat rate											
	Sales tax: more exclusions											
	Sales tax: fewer exclusions											
	Property tax											
	Dividend cut		50%	50%		50%		33%	33%		33%	25%
	Saving less				50%	50%	50%		33%	33%	33%	25%

Range of estimated impacts	Total income impact (millions of \$ of income)											
	Low scenario	111	114	127	49	65	62	117	76	74	85	88
	High scenario	127	132	143	58	74	69	134	88	84	96	101
	Total jobs impact (FTE jobs in Alaska)											
	Low scenario	762	769	551	490	279	272	694	513	508	367	521
	High scenario	1023	1076	839	630	446	393	980	717	682	560	735

Estimated income and job impacts of reducing the deficit by different amounts using different options

Estimated Impacts of Reducing the Deficit by Selected Total Amounts Using Different Potential Combinations of Fiscal Options

		Two options						Three options				Four options
Combinations of fiscal options	Spending cut: broad-based	50%	50%		50%			33%	33%	33%		25%
	Income tax: progressive	50%		50%			50%	33%		33%	33%	25%
	Dividend cut		50%	50%	0%	50%		33%	33%		33%	25%
	Saving less				50%	50%	50%		33%	33%	33%	25%
Estimated impacts of reducing deficit by \$100 million	Income: Low scenario	111	114	127	49	65	62	117	76	74	85	88
	Income: High scenario	127	132	143	58	74	69	134	88	84	96	101
	Jobs: Low scenario	762	769	551	490	279	272	694	513	508	367	521
	Jobs: High scenario	1,023	1,076	839	630	446	393	980	717	682	560	735
Estimated impacts of reducing deficit by \$500 million	Income: Low scenario	554	570	635	244	326	310	586	380	369	424	440
	Income: High scenario	633	660	717	288	372	345	670	440	422	478	503
	Jobs: Low scenario	3,812	3,845	2,754	2,451	1,394	1,361	3,470	2,563	2,541	1,836	2,603
	Jobs: High scenario	5,116	5,380	4,196	3,150	2,230	1,966	4,898	3,587	3,411	2,798	3,673
Estimated impacts of reducing deficit by \$1.0 billion	Income: Low scenario	1,108	1,139	1,271	488	651	620	1,173	759	739	847	879
	Income: High scenario	1,265	1,320	1,434	576	745	690	1,340	880	844	956	1,005
	Jobs: Low scenario	7,623	7,690	5,509	4,902	2,788	2,721	6,940	5,126	5,082	3,673	5,205
	Jobs: High scenario	10,232	10,761	8,393	6,300	4,461	3,932	9,795	7,174	6,821	5,595	7,346
Estimated impacts of reducing deficit by \$1.5 billion	Income: Low scenario	1,662	1,709	1,906	732	977	930	1,759	1,139	1,108	1,271	1,319
	Income: High scenario	1,898	1,981	2,152	864	1,117	1,035	2,010	1,320	1,265	1,434	1,508
	Jobs: Low scenario	11,435	11,534	8,263	7,353	4,182	4,082	10,411	7,690	7,623	5,509	7,808
	Jobs: High scenario	15,348	16,141	12,589	9,450	6,691	5,898	14,693	10,761	10,232	8,393	11,019
Estimated impacts of reducing deficit by \$2.0 billion	Income: Low scenario	2,216	2,278	2,542	976	1,302	1,240	2,345	1,519	1,477	1,695	1,759
	Income: High scenario	2,531	2,641	2,869	1,152	1,489	1,379	2,680	1,761	1,687	1,913	2,010
	Jobs: Low scenario	15,246	15,379	11,018	9,804	5,575	5,442	13,881	10,253	10,164	7,345	10,411
	Jobs: High scenario	20,464	21,521	16,785	12,600	8,921	7,864	19,590	14,348	13,643	11,190	14,693
Estimated impacts of reducing deficit by \$2.5 billion	Income: Low scenario							2,932	1,898	1,846	2,118	2,199
	Income: High scenario							3,350	2,201	2,109	2,391	2,513
	Jobs: Low scenario							17,351	12,816	12,705	9,181	13,013
	Jobs: High scenario							24,488	17,934	17,053	13,988	18,366
Estimated impacts of reducing deficit by \$3.0 billion	Income: Low scenario							3,518	2,278	2,216	2,542	2,638
	Income: High scenario							4,020	2,641	2,531	2,869	3,015
	Jobs: Low scenario							20,821	15,379	15,246	11,018	15,616
	Jobs: High scenario							29,385	21,521	20,464	16,785	22,039

Note: Units for income impacts are millions of dollars. Units for job impacts are FTE jobs. Table omits combination of options and total deficit reduction which would require reductions of more than \$1 billion from any single option. Table calculated by extrapolating from the estimated impacts of reducing the deficit by \$100 million shown in Table III-7.

How big is Alaska's economy?

Selected Estimates of Alaska Income and Employment, 2014

Income (\$ millions)	Personal income	39,793
	Earnings by place of work	30,059
	Wages and salaries	20,683
Employment (jobs)	Total full-time and part-time employment	465,130
	Wage and salary jobs	367,291
	Other jobs	97,839

Source: Bureau of Economic Analysis, SA30 Economic Profile (updated September 30, 2015), www.bea.gov.

Estimated percentage income impacts of reducing the deficit by different amounts using different options

Estimated Income Impacts of Reducing the Deficit by Selected Total Amounts Using Different Potential Combinations of Fiscal Options, Expressed as a Share of Estimated Total Alaska Personal Income in 2014 (\$39.8 billion)

		Two options						Three options				Four options
Combinations of fiscal options	Spending cut: broad-based	50%	50%		50%			33%	33%	33%		25%
	Income tax: progressive	50%		50%			50%	33%		33%	33%	25%
	Dividend cut		50%	50%		50%		33%	33%		33%	25%
	Saving less				50%	50%	50%		33%	33%	33%	25%
\$100 million	Income: Low scenario	0.3%	0.3%	0.3%	0.1%	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	0.2%
	Income: High scenario	0.3%	0.3%	0.4%	0.1%	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	0.3%
\$500 million	Income: Low scenario	1.4%	1.4%	1.6%	0.6%	0.8%	0.8%	1.5%	1.0%	0.9%	1.1%	1.1%
	Income: High scenario	1.6%	1.7%	1.8%	0.7%	0.9%	0.9%	1.7%	1.1%	1.1%	1.2%	1.3%
\$1.0 billion	Income: Low scenario	2.8%	2.9%	3.2%	1.2%	1.6%	1.6%	2.9%	1.9%	1.9%	2.1%	2.2%
	Income: High scenario	3.2%	3.3%	3.6%	1.4%	1.9%	1.7%	3.4%	2.2%	2.1%	2.4%	2.5%
\$1.5 billion	Income: Low scenario	4.2%	4.3%	4.8%	1.8%	2.5%	2.3%	4.4%	2.9%	2.8%	3.2%	3.3%
	Income: High scenario	4.8%	5.0%	5.4%	2.2%	2.8%	2.6%	5.1%	3.3%	3.2%	3.6%	3.8%
\$2.0 billion	Income: Low scenario	5.6%	5.7%	6.4%	2.5%	3.3%	3.1%	5.9%	3.8%	3.7%	4.3%	4.4%
	Income: High scenario	6.4%	6.6%	7.2%	2.9%	3.7%	3.5%	6.7%	4.4%	4.2%	4.8%	5.1%
\$2.5 billion	Income: Low scenario							7.4%	4.8%	4.6%	5.3%	5.5%
	Income: High scenario							8.4%	5.5%	5.3%	6.0%	6.3%
\$3.0 billion	Income: Low scenario							8.8%	5.7%	5.6%	6.4%	6.6%
	Income: High scenario							10.1%	6.6%	6.4%	7.2%	7.6%

Note: Table omits combination of options and total deficit reduction which would require reductions of more than \$1 billion from any single option.

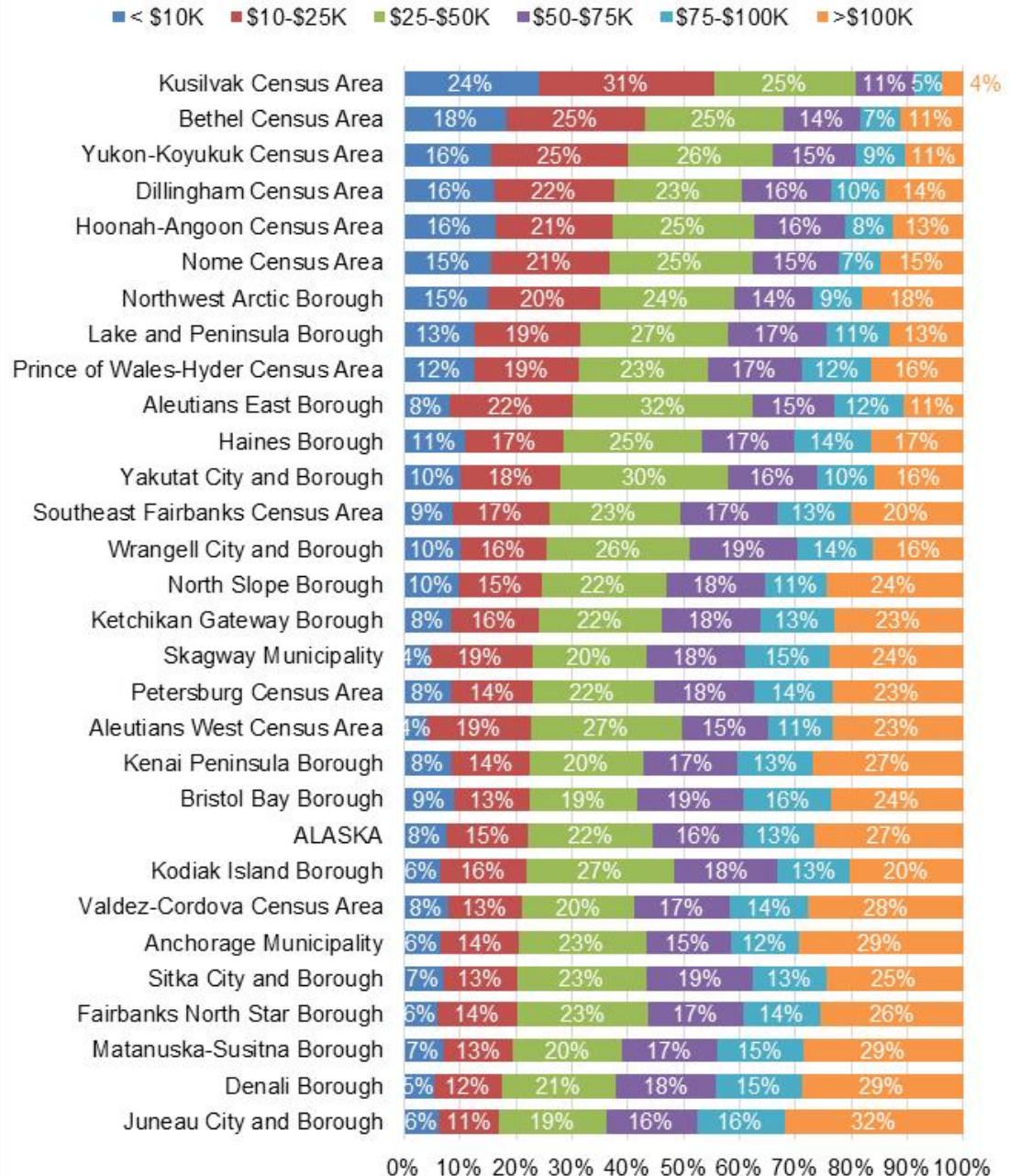
Estimated percentage job impacts of reducing the deficit by different amounts using different options

**Estimated Job Impacts of Reducing the Deficit by Selected Total Amounts Using Different Combinations of Fiscal Options,
Expressed as a Share of Estimated Total Alaska Full-Time and Part-Time Employment in 2014 (465,000 jobs)**

		Two options						Three options				Four options
Combinations of fiscal options	Spending cut: broad-based	50%	50%		50%			33%	33%	33%		25%
	Income tax: progressive	50%		50%			50%	33%	0%	33%	33%	25%
	Dividend cut		50%	50%		50%		33%	33%		33%	25%
	Saving less				50%	50%	50%		33%	33%	33%	25%
\$100 million	Jobs: Low scenario	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
	Jobs: High scenario	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%	0.2%
\$500 million	Jobs: Low scenario	0.8%	0.8%	0.6%	0.5%	0.3%	0.3%	0.7%	0.6%	0.5%	0.4%	0.6%
	Jobs: High scenario	1.1%	1.2%	0.9%	0.7%	0.5%	0.4%	1.1%	0.8%	0.7%	0.6%	0.8%
\$1.0 billion	Jobs: Low scenario	1.6%	1.7%	1.2%	1.1%	0.6%	0.6%	1.5%	1.1%	1.1%	0.8%	1.1%
	Jobs: High scenario	2.2%	2.3%	1.8%	1.4%	1.0%	0.8%	2.1%	1.5%	1.5%	1.2%	1.6%
\$1.5 billion	Jobs: Low scenario	2.5%	2.5%	1.8%	1.6%	0.9%	0.9%	2.2%	1.7%	1.6%	1.2%	1.7%
	Jobs: High scenario	3.3%	3.5%	2.7%	2.0%	1.4%	1.3%	3.2%	2.3%	2.2%	1.8%	2.4%
\$2.0 billion	Jobs: Low scenario	3.3%	3.3%	2.4%	2.1%	1.2%	1.2%	3.0%	2.2%	2.2%	1.6%	2.2%
	Jobs: High scenario	4.4%	4.6%	3.6%	2.7%	1.9%	1.7%	4.2%	3.1%	2.9%	2.4%	3.2%
\$2.5 billion	Jobs: Low scenario							3.7%	2.8%	2.7%	2.0%	2.8%
	Jobs: High scenario							5.3%	3.9%	3.7%	3.0%	3.9%
\$3.0 billion	Jobs: Low scenario							4.5%	3.3%	3.3%	2.4%	3.4%
	Jobs: High scenario							6.3%	4.6%	4.4%	3.6%	4.7%

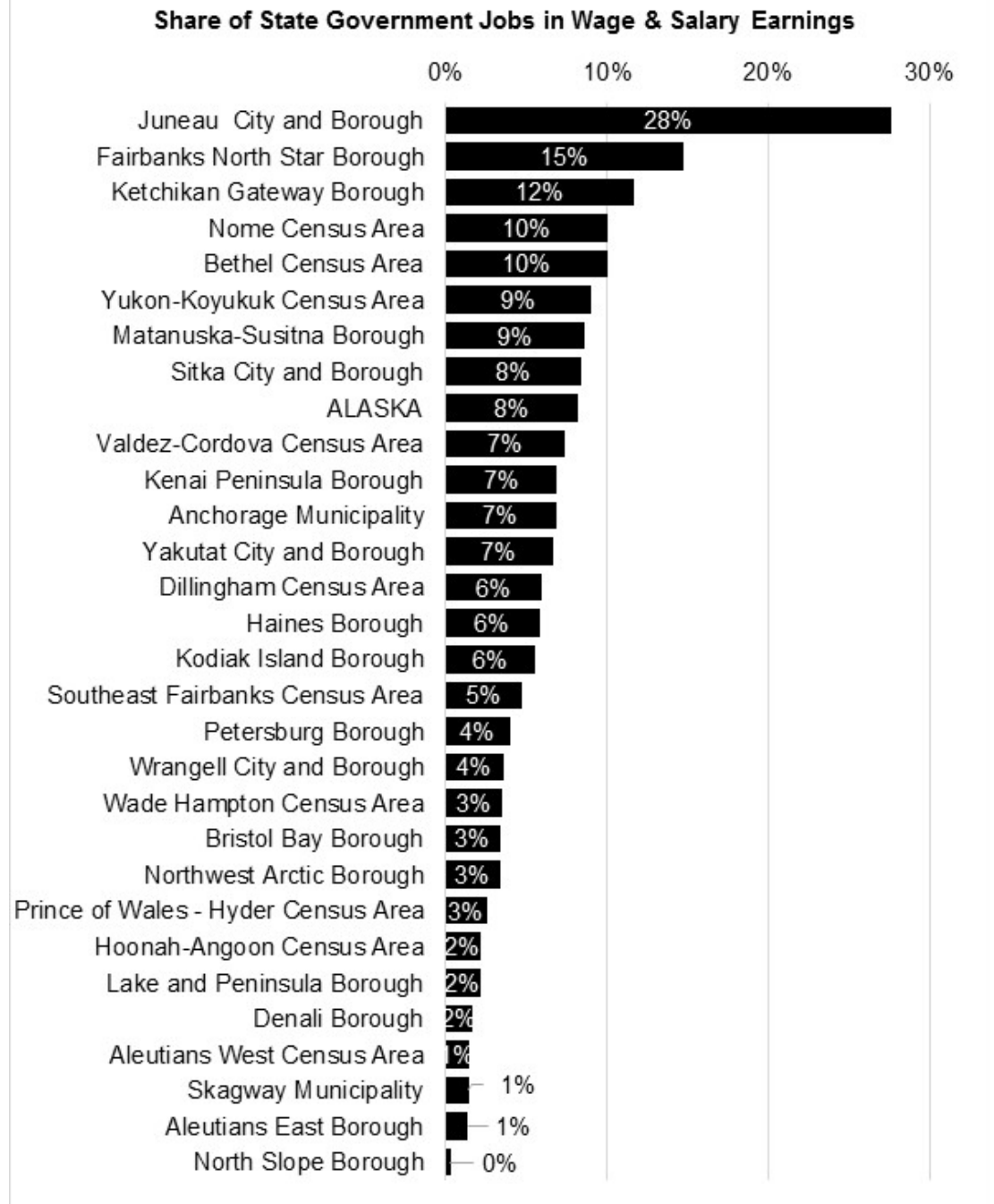
Note: Table omits combination of options and total deficit reduction which would require reductions of more than \$1 billion from any single option.

Share of Total 2013 Federal Income Tax Exemptions,
by Adjusted Gross Income Group and Alaska Census Area

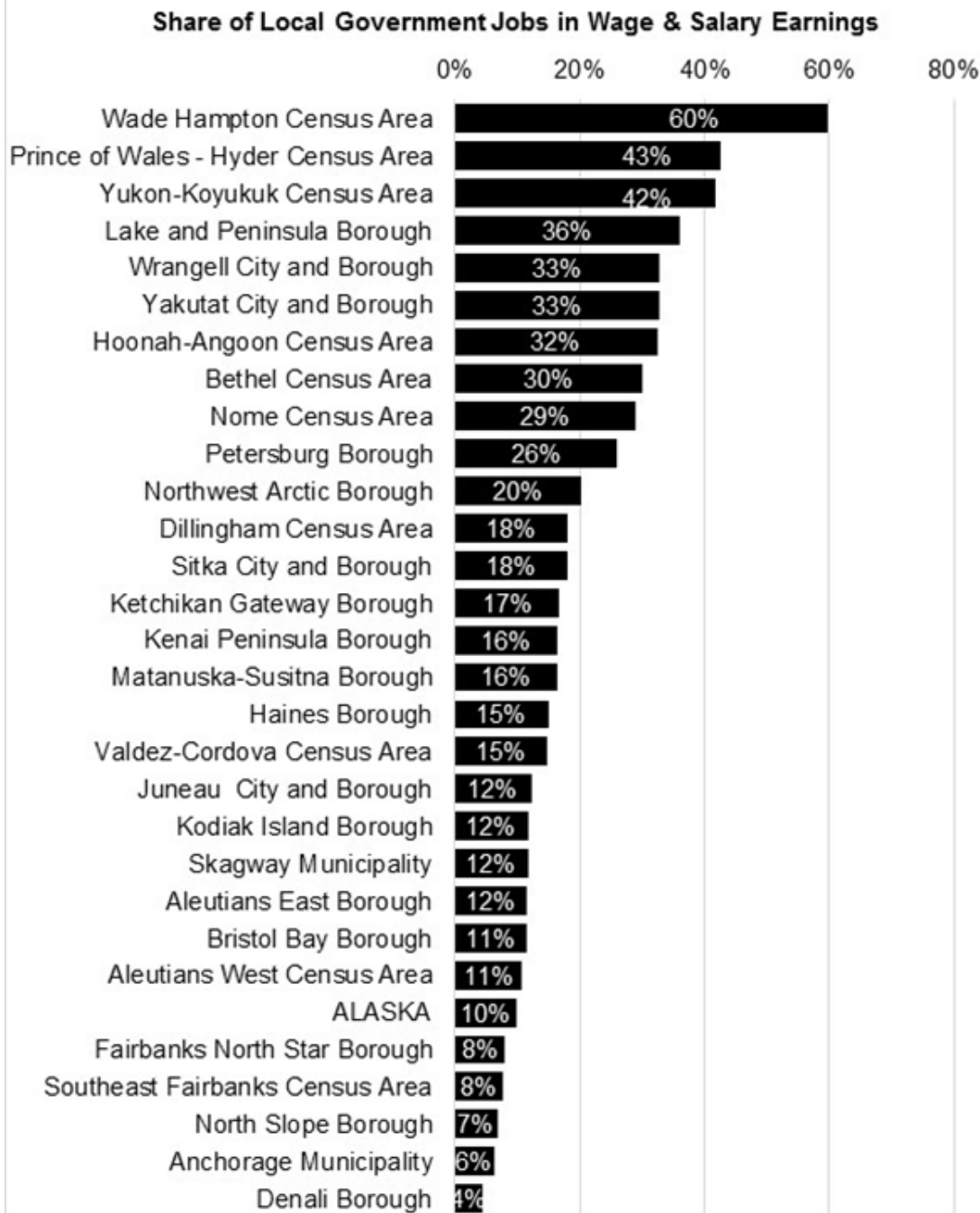


Income distribution
varies for different
regions of Alaska

Regional economic impacts of state spending cuts would depend on how important state government jobs and income are in the regional economy. Some regions are much more dependent than others.



Regional economic impacts of cuts to revenue sharing, K-12 education, and other ways that state spending helps fund local government would depend on how important local government jobs are in the regional economy. Some regions are much more dependent than others.



Economic implications of how fast we reduce the deficit

We have lost billions of dollars of oil revenues.

We will experience significant economic impacts of adjusting to lower oil revenues.

- Impacts of spending cuts we've already made:
 - Impacts of capital budget cuts on construction industry
 - Delayed because capital projects take several years
 - Actual capital spending will decline as money from past large capital budgets runs out
- Impacts of future adjustments we will have to make
 - Spending cuts
 - Taxes
 - Dividend cuts
- It's not a question of whether we will face these impacts.
 - It's only a question of when.

Alaskans are justifiably concerned about the impacts of deficit reduction on an already weakened economy

- We are already experiencing the impacts of:
 - Oil industry job losses
 - Past state capital budget reductions
 - State government job losses
 - Mining industry downturn
 - Low salmon prices
- These impacts would be increased by large:
 - Spending cuts
 - New taxes
 - Dividend cuts

We can reduce the direct short-run economic impacts of reducing the deficit by continuing to draw down our savings.

BUT

Continued large deficits and draws from our savings would also have significant negative economic impacts.

Negative economic impacts of continued large deficits . . .

Certain downgrading of Alaska's credit rating
and increases in our future borrowing costs



S&P downgrades Alaska's debt rating

Dated: January 5, 2016 - 4:01pm

Standard & Poor's also said it expects Alaska's credit rating to continue its fall if the Alaska Legislature does not "enact significant fiscal reforms to reduce the state's fiscal imbalance" during the upcoming 2016 session.

Alaska Dispatch News

Tuesday, March 1, 2016

*Moody's docks state's credit rating;
Fitch issues stern warning*

Negative economic impacts of continued large deficits . . .

Loss of future investment income

Deficit and resulting drawdown in investment assets	Permanent annual loss of future investment earnings @ 5% rate of return
\$1 billion	\$50 million
\$2 billion	\$100 million
\$3 billion	\$150 million
\$4 billion	\$200 million

Negative economic impacts of continued large deficits . . .

Potential future insufficiency of cash in Permanent Fund earnings reserve to cover otherwise sustainable payouts of Permanent Fund investment earnings in low-earnings years.

Negative economic impacts of continued large deficits . . .

Lack of time for new taxes to begin to bring
in revenues before we really need the money.

Negative economic impacts of continued large deficits . . .

Continued and growing

UNCERTAINTY

about

Alaska's fiscal and economic future

among

Alaskans

Alaska businesses

Resource industries

Public and private employees

Economic implications of uncertainty

Alaska businesses postpone investment
Alaskans postpone spending and investment
Young Alaskans leave
The best employees leave
Resource industries invest elsewhere

People focus on the negative impacts of what is coming
rather than on moving forward

We face a tradeoff between the
short-run negative economic impacts of reducing the deficit
and the
significant short-run and longer-run economic impacts
of not reducing the deficit.

How can we minimize the economic impacts of adjusting to permanently lower oil revenues?

- Probably not by fully closing the deficit this year.
- Certainly not by running another huge deficit this year.

We will have a smoother economic transition to the reality of lower oil revenues if we

- Significantly reduce the deficit this year
- Make real choices about how we will reduce the rest
 - Even if we implement them over several years
- Reduce uncertainty and build confidence about our economic future

If the fall in our oil revenues was temporary
then it would make sense to run deficits
to help support the economy.

But the fall in our oil revenues is not temporary.

We can't indefinitely support the economy by running deficits.

Not paying for what we spend this year
means that our children will pay
for what we spend this year.